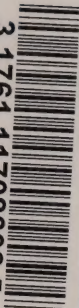


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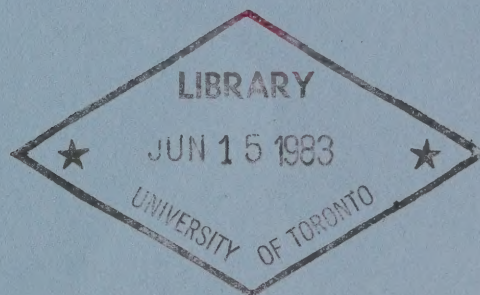
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NATIONAL ENERGY BOARD REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
(Toll Application)

of



Trans Québec & Maritimes Pipeline Inc.

June 1983

NATIONAL ENERGY BOARD

REASONS FOR DECISION

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Part IV of the National Energy Board Act
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JUNE 1983

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(i)

Recital and Appearances

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec
& Maritimes Pipeline Inc. for certain orders
respecting tolls and tariffs under Sections 50,
51, 52, and 52.2 of the Act, filed with the
Board under File No. 1562-T28-2.

HEARD at Ottawa, Ontario on November 30,
December 1, 2, 3, 6, 7, 8, 9 and 10, 1982
January 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, 31,
February 1, 2, 3, 8, 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 28,
March 1, 2, 3, 4, 7, 8, 9 and 10, 1983

BEFORE:

R.F. Brooks	)	Presiding Member
J.R. Hardie	)	Member
J.L. Trudel	)	Member

APPEARANCES:

H. Soloway Q.C.	)	Trans Québec & Maritimes Pipeline Inc.
L. Leclerc)	
C.K. Yates	)	Canadian Petroleum Association and Independent Petroleum Association of Canada
B.A. Carroll	)	Industrial Gas Users Association
J.H. Farrell	)	The Ontario distributors
D. Quann	)	- The Consumers' Gas Company Ltd. - Northern and Central Gas Corporation Limited - Union Gas Limited
J.H. Smellie	)	Dome Petroleum Limited
Y. Brisson	)	Gaz Inter-Cité Québec Inc.
A. Bigué	)	Gaz Métropolitain, inc.
W.J. Hartnett	)	Imperial Oil Limited
J. Hopwood, Q.C.	)	NOVA, AN ALBERTA CORPORATION
R. Bédard	)	La Société québécoise d'initiatives pétrolières
J.M. Murray	)	TransCanada PipeLines Limited
R.B. Cohen)	

A.S. Hollingworth	)	Alberta Petroleum Marketing Commission
N.D. Shende	)	The Province of Manitoba
W.F. Denny	)	The Province of New Brunswick
E.J. Smith	)	The Minister of Energy for Ontario
J.M. Johnson, Q.C.)	
J. Giroux	)	Le Procureur général du Québec
K.J. MacDonald)	Consumers Association of Canada
H. Wetston)	National Energy Board
L. Meagher)	

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Abbreviations and Definitions

AFUDC	- Allowance for Funds Used During Construction
APMC	- Alberta Petroleum Marketing Commission
Applicant	- Trans Québec & Maritimes Pipeline Inc.
Board	- National Energy Board
CO	- Construction Order
CCA	- Capital Cost Allowance
Company	- Trans Québec & Maritimes Pipeline Inc.
CPA	- Canadian Petroleum Association
GC-64	- Certificate of Public Convenience and Necessity No. GC-64 issued 21 March 1980 authorizing facilities crossing Lake of Two Mountains
GC-65	- Certificate of Public Convenience and Necessity No. GC-65 issued 16 May 1980 authorizing facilities from Boisbriand to Quebec City
GC-68	- Certificate of Public Convenience and Necessity No. GC-68 issued 10 December 1981 authorizing facilities east of Quebec City to Halifax
GICQ	- Gas Inter-Cité Québec Inc.
GPIS	- Gas Plant In Service
GPUC	- Gas Plant Under Construction
IPAC	- Independent Petroleum Association of Canada
NEB	- National Energy Board
NEB Act	- National Energy Board Act
NOVA	- NOVA, AN ALBERTA CORPORATION
O & M	- Operating and Maintenance
Q & M	- Q & M Pipe Lines Ltd.
TQM	- Trans Québec & Maritimes Pipeline Inc.
TransCanada	- TransCanada PipeLines Limited

- February 1980 - "National Energy Board Reasons for Decision in the Matter of the Applications under Part III of the National Energy Board Act of TransCanada PipeLines Limited and Q & M Pipe Lines Ltd. and in the Matter of an Application under Section 60 of the National Energy Board Act of TransCanada PipeLines Limited - February 1980"
- April 1980 - "National Energy Board Reasons for Decision in the Matter of the Applications under Part III of the National Energy Board Act of TransCanada PipeLines Limited and Q & M Pipe Lines Ltd. - April 1980"

CHAPTER 1

THE APPLICATION AND BACKGROUND

1.1 The Application

By an application dated 18 November 1981, as supplemented by applications dated 9 August 1982 and 16 February 1983, Trans Québec & Maritimes Pipeline Inc. applied to the Board under sections 50, 51, 52 and 52.2 of the National Energy Board Act for orders approving the Company's cost of service tariff and containing conditions of service and just and reasonable tolls that it may charge for or in respect of the transmission of natural gas within Canada through its pipeline facilities from the point of interconnection with the existing TransCanada PipeLines Limited system near St-Lazare, Quebec, to various points of delivery on such facilities.

The Applicant submitted that its Base Case toll proposal would provide a proper level of charges in respect of services for the fixing of just and reasonable tolls. In the alternative, TQM requested approval of its Levelling Case toll proposal, if the Board were to deem it requisite that the Company's tolls be levelled.

The application, as supplemented, contained requests for orders approving the rate base, the return on rate base, the rate of return on the equity component of rate base, the development costs of the sponsors and of TQM, the operation and maintenance expense budget for 1983 and the inclusion in rate base of project costs set out in exhibit 250, all as proposed.

TQM also requested, in the event that the Board approved the Company's Base Case, an order directing that the Applicant recover in its tolls, in a manner satisfactory to the Board, the amount from and after 12 February 1982, by which the tolls determined by the Board to be just and reasonable in the Base Case exceed the tolls charged under the tariff TQM filed pursuant to Board Order No. TG-7-81 and amending orders, together with interest on the amount so recovered.

The application, as supplemented, contained requests for orders for accounting and toll-making purposes approving the amount by which the Company's actual O & M expenses for the period 12 February 1982 to 31 December 1982 exceeded the amount of the budgets previously approved by the Board for that period, and authorizing the amortization thereof and approving the deferral and amortization of the Applicant's

downscaling costs, as proposed. Further details of the application and supplemental applications are set out in the following chapters of these Reasons for Decision.

By Order No. AO-3-RH-4-82, the Board set down for hearing TQM's application and first supplemental application. The second supplemental application was made during the hearing.

This was TQM's first toll hearing and the hearing order (see Appendix 1) specified that the following subjects be covered in the hearing:

- "(a) The method of regulation including:
- (i) the alternatives of a fixed toll or variable cost of service toll including:
 - (A) the effect of any federal government contributions, and
 - (B) the effect of the Applicant having no beneficial ownership of the pipeline assets.
 - (b) Rate Base,
 - (c) Cost of Service excluding return on rate base and the allowance for income tax,
 - (d) Desirability of, and possible methods for, levelling of the tariff,
 - (e) Allowance for income taxes,
 - (f) Return on rate base,
 - (g) Form and content of the transportation tariff,
 - (h) Any other matters relating to the tolls and tariffs."

The evidentiary portion of the hearing commenced in Ottawa on 30 November 1982 and proceeded for a period of 48 days of sittings during the months of December, January, February and March, concluding on 10 March 1983. Responses to undertakings given by Mr. W.R. Waters, who appeared as a witness for CPA/IPAC, a clarification to the oral evidence of Mr. R.D. Hall, who appeared for the APMC, revisions to toll sheets 203, 219 and schedule C of TQM's Gas

Transportation Tariff, the Applicant's final argument, intervenors' final arguments, and the Applicant's reply argument were all submitted to the Board and served on parties of record after the hearing concluded.

1.2 Background

On 25 September 1979, the Board, pursuant to Order No. GH-4-79, commenced a hearing on competing applications by TransCanada and Q & M Pipe Lines Ltd., each company seeking a certificate of public convenience and necessity under Part III of the NEB Act to construct and operate natural gas pipeline facilities from St-Lazare, near Montreal, in the Province of Quebec, through Quebec into the Provinces of New Brunswick and Nova Scotia. The proposed pipelines were to constitute an extension to TransCanada's existing system.

On 5 November 1979, TransCanada and Q & M announced that they intended to merge their interests and were granted leave to amend their respective applications to make them complementary. In the amended applications, TransCanada sought a certificate for facilities from St-Lazare to Lévis/Lauzon, and Q & M sought a certificate for facilities from Lévis/Lauzon eastward through Quebec and New Brunswick to Nova Scotia. Also, Q & M proposed to construct a lateral which would allow the export of natural gas to the northeastern United States. After the merger, TransCanada fully supported the application of Q & M and Q & M fully supported the application of TransCanada. The joint Applicants indicated that any certificate or certificates granted would be held in a fiduciary relationship for the benefit of both until approval was given to the assignment of such certificate(s) to a new and separate corporation not then existing.

Near the conclusion of the Part III hearing, TransCanada requested the Board to give expedited consideration to the initial section of its proposed pipeline involving the crossing of the Lake of Two Mountains near Oka, Quebec. In support of its request TransCanada stated that, for environmental reasons, the crossing could only be done in the summer months, and if it were not constructed in the summer of 1980 natural gas service to new market areas would be delayed by one year.

The hearing concluded on 30 January 1980.

The Board issued Reasons for Decision dated February, 1980 saying that it was prepared, subject to the approval of the Governor in Council, to issue a certificate to TransCanada for the construction of the first part of its proposed pipeline including the Lake of Two Mountains

crossing. Certificate of Public Convenience and Necessity No. GC-64 was issued on 21 March 1980.

In its April 1980 Reasons for Decision, the Board decided to issue a certificate for the construction and operation of facilities from Boisbriand to Quebec City; Certificate of Public Convenience and Necessity No. GC-65 was issued on 16 May 1980. The application for a certificate covering the extension of the pipeline east of Quebec City was at that time dismissed.

Trans Québec & Maritimes Pipeline Inc. was incorporated under the laws of Canada on 24 April 1980.

On 17 September 1981, the Board issued Order No. MO-5-81 authorizing the transfer of Certificate Nos. GC-64 and GC-65 to TQM and Order No. MO-6-81 authorizing the sale by TransCanada and acquisition by TQM of such parts of the pipeline authorized by GC-64 and GC-65 as had been constructed as of the day the certificates were assigned.

On 5 January 1982, a partnership agreement was entered into by TransCanada, Q & M and TQM wherein it was agreed that the pipeline assets covered by Certificate Nos. GC-64 and GC-65, would be transferred to the partnership, the two partners being TransCanada and Q & M. TQM, as mandatary for the partnership, was to continue the construction of and later operate the pipeline.

On 7 January 1982, the transfers authorized by Order Nos. MO-5-81 and MO-6-81 took place.

In August 1982, by a novation agreement approved by the Board, NOVA was substituted as a partner for Q & M. Consequently, all sponsor's development costs incurred by Q & M were transferred to NOVA.

Upon application to the Board by TQM in December 1980 for a certificate of public convenience and necessity authorizing construction of natural gas transmission facilities east of Quebec City through to Halifax, and upon consideration by the Board of this application at a public hearing held in March and April 1981 under Order GH-1-81, Certificate of Public Convenience and Necessity No. GC-68 was issued on 10 December 1981 authorizing, subject to certain conditions, the construction of facilities east of Quebec City to Halifax. No facilities certificated by GC-68 have been built to date.

Construction of the mainline facilities certificated by GC-64 and GC-65 was begun in May

1981; it is anticipated that the mainline to Quebec City will be completed in August 1983. It is not anticipated that TQM will construct or operate all of the laterals certificated by GC-65 but it appears from the "Quebec Natural Gas Laterals Program - Agreement in principle between the Government of Canada and Gaz Inter-Cité Québec Inc." (filed as exhibit 106) that GICQ will undertake the construction and operation of certain of these laterals. The Government of Canada and GICQ have now entered into specific agreements for the construction of the Sherbrooke, Grand-Mère and Bécancour laterals in 1983.

TransCanada is currently the only user of the TQM facilities. Natural gas transmitted by TQM for TransCanada is sold by TransCanada to TQM at the point of interconnection between TQM's and the distributors' facilities. TQM immediately sells the gas to the distributors at the same point.

Being the only shipper on the TQM system, TransCanada is charged the entire toll determined by the Board to be just and reasonable in respect of transmission services rendered by TQM. Charges to TransCanada by TQM are, upon approval by the Board, included in TransCanada's cost of service as a component of "Transmission by Others." Thus TQM's toll becomes an integral part of the tolls paid by TransCanada's customers.

CHAPTER 2

THE METHOD FOR REGULATING THE TOLLS OF TQM

The tolls charged by gas transportation companies under the Board's jurisdiction fall into two categories:

- (1) fixed tolls which are designed for a prospective period and are based on actual results of past operations and/or forecasts of costs and throughputs;
- (2) variable cost of service type tolls whereby a company is permitted to adjust its charges, in accordance with rules approved by the Board, on a monthly basis to reflect the actual costs it incurs.

TQM applied for a variable cost of service type toll believing it to be the only appropriate choice in the present circumstances. Several intervenors argued that TQM's reasons for proposing a variable toll were based mainly on financing considerations and perceived forecasting uncertainties. TQM, however, argued that in its opinion a variable toll would be the best method of regulation, providing simplicity, efficiency, and all requisite controls.

The project originally planned by the sponsors was considerably larger in scope than the system which TQM is now operating and constructing. The original project included a mainline from St-Lazare to Halifax with several extensive systems of laterals within Quebec, New Brunswick, and Nova Scotia. However, owing to circumstances largely beyond the control of TQM, the present phase of the project now consists of a mainline from St-Lazare to Quebec Junction and six small laterals which will be completed in 1983.

The Board understands why a new company anticipating major expansions to its system over a period of years might consider a variable toll appropriate, having in mind uncertainties surrounding future costs and throughputs. However, since the scope of the TQM project has been considerably reduced and the evidence indicates that TQM's major capital additions will be complete by August 1983, the

Board believes that there should not be any significant uncertainties which would preclude the use of a fixed toll. In addition, since there is to be only one shipper utilizing TQM's facilities in the foreseeable future and since all of TQM's costs are classified as fixed costs, i.e., they do not vary with throughput, projections of throughputs are not a critical factor in the determination of the appropriate method of regulation in this case.

With respect to the financing implications presented by the Applicant as an argument for a variable toll, the Board recognizes that the form of the tariff may influence the structure of the credit advanced to TQM by its lenders. However, the Board's consideration of the factors leading to its decision on the best method of regulation must not be narrowly constrained to financing matters only. In any case, the Board is not convinced by the evidence that a fixed toll method of regulation will preclude TQM from arranging suitable financing.

It is the Board's view that a fixed toll in the circumstances of this application is the most appropriate method of regulation; the requisite controls will be exercised through the public hearing process.

The Board's hearing order stated that in considering the method of regulation the Board would also consider:

- (1) the effect of any federal government contributions, and
- (2) the effect of the Applicant having no beneficial ownership of the pipeline assets.

Having heard the evidence and the arguments presented the Board is of the view that, in this case, these matters do not have an effect on the choice of the method of regulation.

CHAPTER 3

THE DESIRABILITY OF LEVELLING THE TARIFF OF TQM

In its hearing order, the Board stated that one of the subjects to be covered was the "desirability of, and possible methods for, levelling of the tariff." In general, the expression "tariff levelling," as used by the Board, refers to the reduction of high front-end costs associated with major capital additions in an inflationary period. TQM advanced a levelling proposal it considered satisfactory in the event that the Board decided it would be desirable to level TQM's tariff but stated its preference for its non-levelling case. The general opinion among the participants at the hearing was that levelling, and particularly the levelling proposal of TQM, was not appropriate.

As was outlined more fully in Chapter 2, the scope of the TQM project has been considerably reduced since its certification. This reduction in scope in itself has resulted in a decrease of the high front-end costs originally anticipated in TQM's tariff. It is the Board's view that the changes in scope of the TQM project and the effect of Board decisions in respect of the over-all disposition of the Company's toll application counterbalance the desirability there might otherwise have been of adopting a method of levelling the TQM tariff. Accordingly, in the circumstances of this case, the Board has not accepted the specific levelling method submitted by the Applicant or other methods proposed by intervenors.

CHAPTER 4

TOLL DESIGN AND TARIFF MATTERS

4.1 Toll Design

Since none of the costs associated with TQM's system vary with throughput, they are properly classified as fixed costs. It is the Board's decision that the simplest and most appropriate fixed toll in this case is a monthly dollar amount equivalent to one-sixth of the total cost of service approved by the Board for the six-month period commencing 1 July 1983. Since TQM will have only one shipper using its facilities for the foreseeable future, the total fixed toll can be charged to that shipper. In the event that additional shippers utilize the pipeline the fixed toll is to be charged to each shipper in proportion to that shipper's share of contracted deliveries.

The table below shows a summary of the allowable cost of service, details of which may be found elsewhere in this report.

Approved Cost of Service

Test Period 1 July 1983 to 31 December 1983

	Authorized by NEB (\$000)	<u>Reference</u>
Operation and Maintenance	4,532	Section 7.2
Depreciation and Amortization	6,585	Section 7.3
Taxes Other than Income Taxes	1,424	Section 7.5
Income Taxes	-	Section 7.4
Return on Rate Base @ 12.9%	<u>25,242</u>	Chapters 5 and 6
TOTAL COST OF SERVICE	<u>37,783</u>	

Accordingly, the approved monthly toll to be charged by TQM beginning 1 July 1983 is \$6.297 million.

4.2 Tariff Matters

4.2.1 Disposition of Order No. TG-7-81

TQM applied for an order from the Board directing it to recover in its tolls, in a manner satisfactory to the Board, the amount from and after 12 February 1982, by which the tolls determined by the Board to be just and reasonable exceed the tolls charged under the tariff filed by TQM pursuant to Board Order No. TG-7-81, as amended, together with interest on the amount so recovered.

Since by Board Order No. AO-1-TG-7-81, Order No. TG-7-81 was made interim effective 1 October 1982, any adjustments to the tolls made pursuant to section 52.2 of the NEB Act only apply for the period from 1 October 1982 to 30 June 1983.

The Board finds the just and reasonable tolls for the period of 1 October 1982 to 30 June 1983 to be different from the tolls charged by TQM under the tariff filed pursuant to TG-7-81, as amended, for the same period.

Consequently, as described elsewhere in these Reasons for Decision and as set out in Board Order No. TG-3-83, attached as Appendix XII, the Board finds it appropriate to adjust the tolls charged by TQM under its tariff filed pursuant to TG-7-81, as amended, in relation to the rate of return on equity, the date of the inclusion of allowed development costs in rate base, and capital taxes. Accordingly, the Board requires that the tolls calculated under TG-7-81, as amended, for the period 1 October 1982 to 30 June 1983 be adjusted and the sum of the monthly adjustments together with carrying charges at the allowed rates of return on rate base calculated from the last date of each month to 30 June 1983 be charged to the shipper on the TQM facilities during the month of July 1983.

4.2.2 Fixed Toll Tariff

In response to an information request from the Board, TQM filed on 9 August 1982 the revisions to the transportation tariff filed in its application dated 18 November 1981 that would be required in order to incorporate fixed transportation tolls as opposed to a cost of service type toll.

In view of the Board's decision to approve a fixed toll, TQM is instructed to file a gas transportation tariff with the Board which incorporates the approved toll, the revisions outlined in the response of 9 August 1982 to the Board's information request, and the decisions outlined in these Reasons for Decision including a provision for more than one shipper on the TQM system.

The Board does not consider that TQM provided sufficient justification for the inclusion in Rate Schedule T-1, Firm Service, of paragraph 10, "Reimbursement of Disallowed Charges." Accordingly, the Board requires this paragraph to be deleted from TQM's gas transportation tariff.

CHAPTER 5

RATE BASE

5.1 Introduction

During the hearing, TQM presented evidence showing its projected rate base at the

end of each month for the twelve months ending 31 December 1983. For the reasons indicated hereafter, the Board has adjusted the test period rate base in the following manner:

Table 5.1.1

Average Rate Base

Test Period 1 July 1983 to 31 December 1983

	<u>Hearing Evidence (\$000)</u>	<u>Amount Disallowed (\$000)</u>	<u>Amount Deferred (\$000)</u>	<u>Other Adjustments (\$000)</u>	<u>Authorized by NEB (\$000)</u>
Gas Plant in Service	447,004 ⁽¹⁾	(14,425)	(22,763)	-	409,816
Accumulated Depreciation	<u>(7,731)</u>	<u>766</u>	<u>-</u>	<u>-</u>	<u>(6,965)</u>
Net Gas Plant	439,273	(13,659)	(22,763)	-	402,851
Working Capital	4,725	(752)	-	-	3,973
Average Deferred Income Taxes	(8,745)	8,745	-	-	-
Tax Benefit on Sponsors' Development Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,445)</u>	<u>(15,445)</u>
TOTAL RATE BASE	<u>435,253</u>	<u>(5,666)</u>	<u>(22,763)</u>	<u>(15,445)</u>	<u>391,379</u>

- (1) Includes average GPIS per Exhibit 305, \$11,768,000 of project costs per Exhibit 250, and the portion of Sponsors' development costs (25 percent) to be placed in rate base on 1 January 1984 per TQM's application.

Table 5.1.2

Details of Adjustments to Average
Gas Plant in Service

Test Period 1 July 1983 to 31 December 1983

<u>Reference</u>		<u>Amount Disallowed (\$000)</u>	<u>Amount Deferred (\$000)</u>
5.2.1	Expected Additions to Rate Base	-	3,059
5.2.2	Project Costs for Inclusion in Rate Base	-	10,056
5.2.3	Boisbriand Sales Meter Station	1,033	-
5.2.4	Transportation Equipment	624	-
5.2.5	Hiring of a Second Contractor	-	7,824
5.2.6	Maritimes O & M Expenses Allocated to GC-65	-	247
5.3	Sponsors' Development Costs	12,768	-
5.3	TQM's Development Costs	-	1,577
	TOTAL	<u>14,425</u>	<u>22,763</u>
5.2	<u>Gas Plant in Service (Excluding AFUDC and Development Costs)</u>		
5.2.1	<u>Expected Additions to Rate Base for Construction in 1983</u>		

TQM forecast the addition in its 1983 rate base of facilities which at the time of the tolls hearing were not approved by the Board under Part III of the NEB Act. These facilities consist of the La Pérade meter station (CO no. 47), the Portneuf meter station (CO no. 48) and the Lac St-Jean extension meter station (CO no. 91). The Board has decided to disallow the inclusion in

TQM's test period rate base of the estimated cost of these proposed facilities totalling \$4.505 million, including AFUDC. Accordingly, the average gas plant in service has been reduced by \$3.059 million which represents the weighted average of the projected monthly balances of the aforementioned construction orders in gas plant in service during the test period. Once the Applicant has sought and obtained approval under Part III of the NEB Act, the matter of inclusion of the corresponding appropriate costs in rate base may be addressed in a subsequent tolls application.

5.2.2 Project Costs for Inclusion in Rate Base

TQM requested the inclusion in its rate base as at 1 January 1983 of the costs of construction orders unrelated to the gas plant in service it operated or planned to operate in the year 1983. TQM justified the inclusion of these costs by the reduction of the scope of the project resulting from circumstances beyond its control, namely, the National Energy Program Update 1982. These construction orders are summarized in Table 5.2.2.1.

The Board has approved the inclusion in TQM's rate base as at 1 July 1983 of the net cost of engineering studies carried out in relation to laterals now expected to be built by GICQ. The Board notes that a significant portion of the project costs incurred by TQM on GICQ laterals has already been recovered through sales to GICQ. The Board directs the Applicant to amortize the balance of \$1.766 million on a straight line basis over a three-year period commencing 1 July 1983. Any proceeds of further sales will be deducted from the unamortized balance thereby reducing the amortization amounts for periods subsequent to 1983.

TQM stated that it did not intend to build the Mont-Rolland and the Lachute/Marelan laterals at the present time. TQM also indicated that the distributor, Gazifère de Hull inc., expressed no desire to sell natural gas in the Lachute/Marelan area. TQM was of the opinion, however, that with governmental assistance sufficient funding could be made available for the construction of the Lachute lateral. According to TQM neither the Lachute/Marelan laterals nor the Mont-Rolland lateral were covered by the Quebec Natural Gas Laterals Program.

The Board has decided to defer the inclusion in rate base of the amount of \$3.624 million incurred in relation to the Lachute/Marelan and Mont-Rolland laterals. When the final decision as to construction of these facilities has been made, the Applicant may seek to have the disposition of these project costs and associated AFUDC, if any, dealt with as part of a future tolls application.

The Board has also decided to defer the inclusion in rate base of project costs in the amount of \$6.299 million relating to GC-68 facilities (\$3.504 million) and connecting GC-65 facilities downstream of Quebec City junction (\$2.795 million). When the final decision relating to the future of GC-68 facilities has been made, the Applicant may seek to have included in a future tolls application the matter of whether these project costs or a portion thereof should be included in rate base, whether carrying charges should be allowed and if so, the amount thereof.

Similarly, the Board has decided to defer the inclusion in rate base of the project costs of \$76,000, which were incurred on special studies relating essentially to the impact of future projects on GC-68 facilities.

TQM sought approval of project costs of \$3,000 incurred on CO no. 84, Leasehold Improvements - Cap Santé. These costs were incurred on TQM's land acquisition office and were related to the construction of the mainline between Trois-Rivières and Quebec City. The Board has decided to approve their inclusion in rate base in the same manner as project costs relating to GICQ laterals.

In accordance with the decisions noted herein, the average gas plant in service has been reduced by \$10.056 million. This amount reflects the weighted average adjustment of the difference between project costs applied for and those allowed (\$11,768,000 - \$1,769,000), and costs of \$57,000 that were included in both the Applicant's evidence with respect to project costs and its evidence with respect to the calculation of gas plant in service.

Table 5.2.2.1

Project Costs Unrelated to Present Gas Plant in Service Requested for Inclusion in 1983 Rate Base		
	(\$000)	(\$000)
1. Laterals and associated facilities: ⁽¹⁾⁽²⁾ Now expected to be built by GICQ	4,095	
Less: revenue realized on sales	<u>(2,329)</u>	
net		1,766
2. Laterals on hold not covered by the Quebec Natural Gas Laterals Program: ⁽³⁾	4,213	
Less: revenue realized on sales	<u>(589)</u>	
net		3,624
3. GC-65 facilities downstream of Quebec City junction-on hold: ⁽⁴⁾		2,795
4. GC-68 facilities: ⁽⁵⁾⁽⁶⁾		3,504
5. Special Studies: ⁽⁷⁾		76
6. Leasehold Improvements - Cap Santé: ⁽⁸⁾		<u>3</u>
TOTAL		<u>11,768</u>

- Notes: (1) CO no's. 34, 35, 36, 37, 38, 39, 40, 42, 63, 64, 65 and part of 80.
 (2) This figure includes certain costs related to GICQ laterals that were included in c.o. no. 80. Project management costs relating thereto were prorated by the Board based on information provided at the hearing.
 (3) CO no's. 18, 19, 20, 21, 24 and 25.
 (4) CO no's. 52, 53, 55, 56, and 57.
 (5) CO no's. 9, 14, 15, 58 to 62, 75, 76, 78, 79 and part of 80.
 (6) This figure includes certain costs related to the Lower St. Lawrence area that were included in co. no. 80. Project management costs relating thereto were prorated by the Board based on information provided at the hearing.
 (7) CO 87.
 (8) CO 84.

5.2.3 Boisbriand Sales Meter Station

The design of the Boisbriand sales meter station was approved by the Board on 4 September 1981, following an application by TransCanada PipeLines dated 24 July 1981, as amended, made pursuant to subcondition 2(2) of Certificate of Public Convenience and Necessity No. GC-64. In the July 1981 application, the cost of the Boisbriand sales meter station was estimated to be \$1.480 million, including allowances of \$62,000 for land costs and \$126,500 for indirect costs. TQM estimated at the tolls hearing that, at the time of the July 1981 application, the design of the station was about 75 to 85 percent completed.

In its toll application dated November 1981, TQM applied for the inclusion in its rate base of an estimated amount of \$1.975 million, not including land costs, for the Boisbriand sales meter station. This estimate did not include capitalized overhead which, in the November 1981 application, was shown separately in NEB account no. 498. The Applicant explained that the estimate in the July 1981 application did not include any allowance for engineering costs. Furthermore, TQM stated the cost of materials had increased significantly because the productivity of fabrication shops in the Montreal area turned out to be lower than expected.

In the Applicant's first supplemental tolls application dated August 1982, the cost of the Boisbriand sales meter station had increased to \$4.399 million, not including land costs. The variance of more than one hundred percent over the November 1981 estimate was explained by the Applicant as follows:

- (1) engineering design costs increased due to design changes, the extended construction schedule, and the engineering of the station as a separate project rather than as a group of stations. The increase was also partly attributed to a reallocation of Canest non site-specific costs;
- (2) field supervision costs increased due to delays in the start of the work and design and field changes;
- (3) the increase in the cost of construction contracts was largely attributed to design and field changes;
- (4) cost of materials increased; and
- (5) capitalized overhead costs were allocated to individual construction orders.

The Applicant filed evidence showing that design changes, together with shortages in materials, hindered progress on the construction of the Boisbriand meter station. The Applicant also explained that the Boisbriand meter station was relatively unique, due to its location immediately underneath a 120 kilovolt power line, close to an autoroute, and within an area that will ultimately become a large industrial subdivision. The Applicant agreed, however, that many aspects of the design of the station were based on standards used by the parent companies.

During the toll hearing, the Applicant further revised the cost of the Boisbriand sales meter station and submitted the following breakdown of costs relating thereto:

	(\$000)
Material	909
Installation	977
Construction Management	327
Land and Land Rights	101
Engineering Design	1,362
Capitalized Overhead	672
Carrying Charges	195
TOTAL	<u>4,543</u>

The Board notes that, in the Gas East application leading to the issuance by the Board of Certificates Nos. GC-64 and GC-65, TransCanada estimated its engineering design costs to be 5 percent of the direct cost of facilities. Using the same definition of direct costs as used in the Gas East application, the Board notes that the applied-for engineering design costs relating to the Boisbriand meter station represent 59 percent of the cost of material, installation, construction management, land, and land rights.

The Board finds that the alleged uniqueness of the Boisbriand sales meter station, which was said by the Applicant to be a source of cost overruns, should have been known at the time the July 1981 subcondition 2(2) application was made. Accordingly, the Board does not consider this uniqueness as explaining the significant variance in costs, other than capitalized overhead, which occurred between the November 1981 toll application and the final estimate provided at the toll hearing.

The Board has concluded that the numerous design and field changes which occurred during the construction of the Boisbriand sales meter station and the additional costs associated therewith were partly the result of TQM's lack of foresight in the engineering and construction planning of the station. Therefore, the Board has

decided to allow the inclusion in the Applicant's rate base of the following amounts relating to the Boisbriand sales meter station:

	(\$000)
- Materials, as applied for:	909
- Installation, as applied for, less an amount of \$75,000 representing 50 percent of the cost of the change orders relating to contracts Q05 and Q06 net of the cost of an access road which was unrelated to the Boisbriand meter station:	902
- Construction management, as applied for, less an amount of \$172,000 resulting from delays in start of construction and design and field changes:	155
- Land and land rights as applied for:	101
- Engineering design, in an amount equal to 30 percent of the total of the four amounts above. This allowance is based on the weighted average cost of engineering accepted by the Board on other meter stations included in the TQM tolls application:	620
- Overhead, as applied for:	672
- Carrying charges as adjusted:	151
TOTAL:	<u>3,510</u>

amount reflects the weighted average adjustment to gas plant in service during the test period.

5.2.4 NEB Account 484 "Transportation Equipment"

Although a reduction in transportation equipment was not reflected in TQM's application, during the hearing TQM indicated that it would significantly reduce its inventory of such equipment by December 1983 as follows: automobiles from 77 to 35, trucks from 86 to 17. Thus, the Board considers it appropriate that a corresponding reduction in value of transportation equipment be applied in determining tolls. In the absence of definitive information as to the cost of the vehicles expected to remain at the end of 1983, the Board has utilized an approximate average of the cost of automobiles (\$10,000) and trucks (\$12,000). Also, it has assumed this reduction would take place gradually over the period from the completion of construction in August 1983 to the end of the year. Accordingly, the Board has decided that Gas Plant in Service, Accumulated Depreciation, and Depreciation Expense for the test period should be amended to reflect the deemed retirement of \$312,000 of transportation equipment on the first day of each of the following months: August 1983, September 1983, October 1983, and November 1983. The timing for these deemed retirements was selected by the Board in light of the Applicant's forecast of downscaling of construction activity during the test period.

In order to calculate the adjustments for tolls purposes, the Board has decided that the proceeds of disposition of the transportation equipment should be deemed to be equal to the estimated net book value of the vehicles to be retired. The net effect of the Board's decision is as follows:

Accordingly, the average gas plant in service has been reduced by \$1.033 million. This

Month	Reduction in GPIS (i)	Reduction in Accumulated Depreciation (ii)	Reduction in Rate Base (i) - (ii)	Reduction in Depreciation Expense
August 1983	\$ 312,000	\$ 93,401	\$218,599	\$ -
September 1983	624,000	192,012	431,988	5,210
October 1983	936,000	295,834	640,166	10,420
November 1983	1,248,000	404,866	843,134	15,630
December 1983	1,248,000	404,866	843,134	20,840

Accordingly, the average gas plant in service for the test period has been reduced by \$624,000. This amount reflects the weighted average adjustment to gas plant in service during the test period.

5.2.5 Hiring of a Second Contractor on GC-64 Construction

A contract for the construction of the mainline between St-Lazare and Boisbriand junction and the Boisbriand lateral was awarded by TQM on 10 August 1981. The work on this contract was to commence on 19 August 1981 but, according to TQM, by 31 August 1981, the cost-reporting system identified clearly the non-performance of the contractor. A meeting with the contractor resulted in a written notice being issued on 2 September 1981 demanding a plan to bring the contract performance up to schedule. According to the Applicant, the production did not increase sufficiently by 10 September 1981, and the decision was made to bring in a second contractor and remove a portion of the work from the first contractor. TQM indicated that the decision to award a second contract for the construction of GC-64 facilities was based on its evaluation of the capability of the first contractor to complete the contract as awarded. This evaluation indicated that the first contractor would be unable to complete the construction according to the schedule, which, at the time of the decision, aimed at initial deliveries at Boisbriand on 15 December 1981. TQM further indicated that its decision to hire a second contractor was also based on an evaluation of the cost implications of delaying by one year the construction of GC-64 facilities, which it thought outweighed the additional costs associated with the hiring of a second contractor.

With respect to cost implications of the non-performance of the first contractor, TQM indicated that it did not wish to comment in any detail because to do so might prejudice its position in the civil litigation forum.

Thus, a thorough examination of the reasons for non-performance by the first contractor was foreclosed. Accordingly, the Board has decided to allow in rate base only a portion of the variance of \$14.820 million between the price of the first contract as estimated at the time of award and the total actual price of the first and second contracts exclusive of labour differential payments. Since, according to TQM, this variance resulted in part from other problems, the most significant of which was an unsettled labour environment, the Board has decided to defer the inclusion in rate base of only half of the variance, plus associated AFUDC to 31 December 1982, for a total amount of \$7.824 million. Final disposition

of this amount, including the matter of any AFUDC subsequent to 31 December 1982, may be addressed in a future toll hearing when TQM is in a position to deal with the issue of the performance of its first contractor.

5.2.6 Maritimes' Operating and Maintenance Expenses Allocated to GC-65

During cross-examination, a witness for the Applicant initially indicated that all Maritimes' O & M costs were capitalized at 100 percent, and that general plant for both the Fredericton and Halifax offices was held in GPUC. The witness later stated that upon performing a detailed check of construction orders pertaining to GC-68, he found that, although large amounts of O & M costs relating to the Maritimes were allocated to GC-68 construction orders, due to the application of the capitalization methodology some Maritimes' overhead charges were, in fact, allocated to GC-65 construction orders. The witness explained that of the \$764,300 of total O & M costs incurred in 1982 with respect to the Maritimes, \$485,000 was allocated to GC-68 and \$279,300 was allocated to GC-65. The witness added that 60 percent of the \$279,300 was allocated to GPIS and 40 percent to GPUC.

The Applicant's position with respect to the \$279,300 of Maritimes O & M costs charged to GC-65 was that no adjustment should be made. However, the Applicant suggested that should the Board decide to remove these costs from rate base, 60 percent could be removed at the time of decision and 40 percent could be removed at the in-service date of the Quebec City section.

Having in mind that the construction and in-service timing of GC-68 facilities is currently unknown, it is the view of the Board that costs relating to the Maritimes should not be included in rate base. Accordingly, the Board has reduced the rate base by \$167,600 effective 1 July 1983 and \$111,700 effective 1 August 1983. The effect of these reductions on the average gas plant in service during the test period is a reduction of \$247,000 calculated on a weighted average basis. The Maritimes' O & M costs removed from rate base are to be deferred and dealt with in the same way and at the same time as the GC-68 facilities referred to in paragraph 5.2.2.

5.2.7 Cost Estimates

Several intervenors raised the issue of the various capital cost estimates prepared by the Applicant since the certification of the Gas East application. CPA/IPAC was of the opinion that TQM presented unreliable and ever-changing cost estimates. CPA/IPAC pointed out that evidence submitted by TQM showed that approximately one-

half of the cost overruns which occurred during the construction of GC-64 facilities were attributable to incorrect assumptions used in the Gas East application.

The Ontario distributors compared the final cost estimates of the TQM mainline applied for in the toll hearing to the route deviation estimates provided by TQM to the Board since the issuance of GC-64 and GC-65. According to the Ontario distributors, this comparison was more appropriate than a comparison with the Gas East estimates since the route deviation estimates were of more recent vintage. The Ontario distributors noted that, even after adjusting for omissions and escalation, the route deviation estimates fell short of the final cost estimates filed in the toll proceeding.

According to the Minister of Energy for the Province of Ontario, it was apparent in the hearing that TQM had not yet demonstrated an ability either to estimate accurately or to control its costs. More particularly, this intervenor believed that certain assumptions relating to welders' productivity were unreasonably optimistic in the Gas East application, and that the Applicant should have been aware of the likelihood of special problems in Quebec, including labour disruptions. The Province of Ontario also believed that the Applicant should have been aware, at the time the Gas East application estimates were made, of the implications of the Act to Preserve Agricultural Lands passed in Quebec in December 1978, and the Cadastre system in Quebec.

The Attorney General for the Province of Quebec was of the view that the main reason for the variance between the Gas East estimates and the actual cost of construction was the under-evaluation by the Company of the impact on construction costs of certain factors beyond the control of TQM. More particularly, the Province of Quebec referred to the payment to craft labour of the rates of the National Pipeline Agreement, the difficulties of building the pipeline in urban areas due to the number of landowners per unit of area, the utilization by the Applicant of an expertise acquired in geographical, urban, and socio-cultural environments totally different from those found in Quebec, the shortage of craft labour qualified in pipeline construction in Quebec, and the requirements of Quebec legislation relating to the preservation of agricultural lands and the environment.

While actual construction costs varied considerably from estimates, the Board is of the view that there is no requirement to adjust the amounts the Applicant requested be included in its rate base.

5.3 Development Costs

As of 31 December 1982, the sponsors of the project incurred development costs of \$44,054,906 including carrying costs and AFUDC, and TQM incurred development costs including AFUDC of \$1,577,000. TQM applied for: 75 percent of sponsors' development costs to be included in rate base on 1 January 1983; 25 percent of sponsors' development costs to be included in rate base on 1 January 1984; and, 100 percent of TQM's development costs to be included in rate base on 1 January 1983. For the reasons indicated in this Chapter, the Board has included development costs including AFUDC and carrying costs totaling \$31,627,241 in rate base as of 1 October 1982 (\$21,295,423 in NEB account 401 - Franchises and Consents, and \$10,331,818 in NEB account 465 Mains).

Accordingly, the average gas plant in service for the test period has been reduced by \$12.768 million with respect to sponsors' development costs and \$1.577 million with respect to TQM development costs. The weighted average reduction with respect to sponsors' development costs is made up of two components. The first is the difference between the total amount of sponsors' development costs including carrying costs and AFUDC as of 31 December 1982 and the amount approved by the Board to be included in rate base as of 1 October 1982 (\$44.055 - \$31.627 million). The other is an amount of \$340,000 which represents AFUDC recorded with respect to development costs for the month of January 1983 which was included in the Applicant's evidence.

5.3.1 Sponsors' Development Costs

The hearing held under Board Order No. GH-4-79 was for the purpose of considering the certification of pipeline facilities to supply natural gas from western Canada to communities east of Montreal to Halifax, Nova Scotia. At the commencement of the hearing, the Board began consideration of two competing proposals, one by TransCanada and one by Q & M (sponsored by NOVA). During the course of the hearing the two projects were merged and the applicants agreed that any resulting certificate would be held for the joint account of the two sponsors.

As a result of the hearing, Certificates GC-64 and GC-65 were issued authorizing the pipeline from St-Lazare to Lévis/Lauzon. The application with respect to facilities between Lévis/Lauzon and Halifax was denied.

In pursuing the original applications, TQM sponsors incurred development costs in the amount of \$29.206 million, not including carrying

charges. TQM requested the inclusion in its rate base of the total amount of these development costs, plus associated carrying charges.

Prior to the transfer of Certificates GC-64 and GC-65 to TQM, certain engineering and other costs were incurred by the sponsors in preparation for actual construction of the pipeline. These costs totalling \$7.140 million (including overhead but excluding carrying charges) that would normally not be considered development costs, formed part of the \$29.206 million. The Board has decided that these costs properly belong in NEB account no. 465, "Mains", and requires that the rate base be adjusted accordingly as of 1 October 1982. In accordance with the depreciation rates being used by TQM under TG-7-81, these costs are to be depreciated at an annual rate of 1 percent until 30 June 1983.

With respect to the remaining amount of \$22.066 million of true development costs, the Board notes that all these costs were incurred in developing the original applications heard under Order No. GH-4-79. On the basis that the Q & M application was dismissed, it could have been concluded that all development costs relating thereto should be disallowed. This would have been the case if the unsuccessful applicant had no further interest in the project. Since TransCanada and Q & M merged their interests and resources during the certificate hearing, a better approach would be to allow only 50 percent of the combined sponsors' development costs.

The Board, however, notes the evidence that, while there was some duplication, development studies carried out by both sponsors were used subsequently by TQM. No evidence was presented as to the specific amount of costs that were duplicated, and in the absence of such evidence, the Board is prepared to allow 50 percent of the amount that could otherwise have been denied. The net effect of the Board's decision is to allow the inclusion in TQM's rate base of 75 percent of the TQM sponsors' true development costs, i.e., net of the amount transferred to Mains and of an amount of \$1.892 million included in NOVA's development costs that was funded by Petro-Canada and which is referred to in section 5.3.5 of this report.

Certificate No. GC-65 included authorization for the building of certain laterals within the Province of Quebec. However, these laterals are now proposed to be built by the distribution company. Some intervenors argued that costs associated with these laterals in Quebec that are now contemplated to be built by GICQ should not be included in TQM's rate base. The Board, however, notes that no distributor was appointed

in Quebec at the time of the hearing held under Board Order No. GH-4-79. Since the Applicant was expected to evaluate markets and distribution facilities to assess the design and the economic viability of the proposed total pipeline system, the Board believes that development studies on these laterals were a necessary part of the Applicant's over-all cost of preparing its facilities application to the Board. Accordingly, the Board allows the development costs relating to these GICQ laterals.

5.3.2 TQM Development Costs

TQM incurred development costs in the amount of \$1.376 million, not including carrying charges in the amount of \$201,000, in pursuit of Certificate GC-68. These costs were incurred between January 1981 and December 1981 in connection with the hearing held under Board Order No. GH-1-81.

The TQM facilities application dated December 1980, heard under Board Order No. GH-1-81, was similar in format and content to that of the Q & M application that had been denied previously by the Board. Major changes in the TQM application related to the deletion of the export proposal, the withdrawal of the underground storage project as part of the formal application, and the addition of information on the environment and on the impact of potential Sable Island production on the project.

TQM indicated during the toll hearing that the facilities certificated by GC-68 were not now planned for construction before 1986. Notwithstanding the expected delay in construction, the Company took the position that it should be entitled to include in its current rate base and to recover in its current tolls, all of its GC-68 development costs whether the certificated pipeline east of Lévis/Lauzon is built or not.

Since construction of the pipeline facilities certificated by GC-68 has been postponed, the Board has decided that the inclusion in rate base of all TQM's development costs relating to GC-68 should be deferred in the same way as other costs relating to GC-68 as set out on page 9 of this decision.

5.3.3 Amortization of Sponsors' Development Costs

Evidence presented during the hearing indicated that the development costs incurred by the sponsors were fully deducted by them for tax purposes at the time they were incurred. In view of the fact that a tax benefit had been taken by the sponsors with respect to these costs, some intervenors questioned whether the development

costs should be transferred to TQM on an after-tax rather than a before-tax basis, and consequently whether a return should be earned on the before or after tax value. Another aspect of this transfer concerned whether or not an amount equal to the before-tax or after-tax value should be ultimately recovered by the sponsors through the amortization of the development costs in TQM's tolls.

Under the Applicant's proposal, the before-tax value would be amortized and treated as a deductible item in the determination of the tax allowance to be included in TQM's cost of service. Alternatively, an intervenor pointed out that if the after-tax value were to be amortized, the sponsors would be kept whole if the after-tax development costs were assumed to be non-deductible for the purpose of determining the tax allowance to be included in the allowed cost of service.

The differing treatments of the amortization of development costs put forward by the Applicant and the intervenors appear to be derived from their respective views as to the value of development costs on which a return should be earned. The Applicant believes that a return should be earned on the before-tax value, whereas the intervenors argue that it should be earned on the after-tax value, since this is the net unrecovered value.

The Board believes that consideration must be given to the fact that these costs have already been fully deducted for tax purposes by the sponsors. Under the Applicant's proposal the sponsors would effectively earn a return on the full value of the development costs despite having postponed the payment of taxes in an amount equal to approximately one-half of these costs.

In the circumstances of this case, the Board considers it appropriate for the Applicant to include, for accounting purposes, the before-tax value of the sponsors' development costs in the appropriate NEB accounts. The approved costs referred to are the total of the sponsors' development costs approved for inclusion in NEB account 401 and those transferred to construction costs. For the purposes of determining tolls, however, it is the Board's view that a return should be earned on only one-half the unamortized balance of the approved costs, and that a methodology should be employed whereby the sponsors effectively recover only the after-tax value of the development costs through amortization. Accordingly, an amount equivalent to one-half the unamortized balance of the approved costs referred to above is to be included in the calculation of rate base as a credit. With respect to the amortization of the approved costs,

the Applicant will amortize the before-tax value. However, the tax component to be included in TQM's tolls will be calculated in a manner which excludes the amortization of development costs from that calculation as a difference between accounting and taxable income. That is, the Applicant is to recover the before-tax value of the sponsors' development costs in its tolls, but is not to collect revenue for the payment of income taxes which would be payable on that part of its toll.

5.3.4 Overhead and Administrative Charges in TransCanada's Development Costs

The development costs of \$18.223 million transferred from TransCanada to TQM include an amount of \$3.395 million of overhead and administrative charges. This amount, which includes carrying costs of \$564,161 on the administrative charges, was transferred subsequent to the initial transfer of development costs from TransCanada to TQM. During cross-examination, a witness for the sponsor indicated that the overhead and administrative charges had not been transferred at the same time as the other development costs because these costs had been substantially recovered by TransCanada through the rate-making process. In addition, the witness explained that in order to place TransCanada's development costs on a basis similar to that of NOVA, TransCanada decided that these costs should properly be allocated to TQM as development costs. TransCanada, both during cross-examination and in its argument, stated that, to the extent that these costs are accepted for inclusion in TQM's rate base, a credit would be included in calculating TransCanada's cost of service. Nonetheless, a number of intervenors argued that the administrative and overhead costs should not be included in TQM's rate base since TransCanada has already recovered them.

In view of the fact that these costs are associated with the TQM project, the Board considers it appropriate for TransCanada to transfer them to TQM. Accordingly, they have been allocated to NEB account 401 and to construction costs in accordance with the decision set out in section 5.3.1 of these Reasons for Decision.

5.3.5 Petro-Canada's Portion of NOVA's Development Costs

Petro-Canada had an interest in the original Q & M project, and consequently shared in the costs of the project in proportion to its percentage interest. It subsequently withdrew from the project and lost its rights in relation to the investment.

The total development costs of \$20.747 million transferred from NOVA to TQM include an amount of \$1.892 million which represents Petro-Canada's portion of the costs associated with the study phase of the Q & M project. During cross-examination, a witness representing NOVA stated that NOVA had not repaid this amount to Petro-Canada, and that the decision to repay Petro-Canada is under consideration depending on the outcome of this hearing. Upon further questioning, he explained that NOVA has no legal liability to Petro-Canada, and that Petro-Canada no longer has an interest in Q & M and has no interest in TQM. As a result of additional questioning that dealt with Petro-Canada ceasing to have a participating interest in the project and whether the original agreement had a clause dealing with that eventuality, the Applicant put the following statement on the record:

"No signed agreement exists between Petro-Canada and NOVA. The precise details of repayment have not yet been finally settled between the parties. NOVA does assure the Board, however, that it does not propose to retain any benefit arising from the treatment of development costs by the Board where such benefit is attributed to development costs contributed by Petro-Canada."

Some intervenors did not agree that this amount should be included in rate base. CPA/IPAC, in particular, argued that it should not be included in rate base since it does not represent a cost incurred by the sponsors. The Applicant, in reply argument, stated that in its view, all monies spent in development costs should be included. The source, it added, should not be a determining factor.

Since Petro-Canada no longer has a participating interest in the TQM project, and since NOVA has not to date reimbursed Petro-Canada for these costs and has no legal liability to do so, the Board finds it inappropriate to include the \$1,891,704 in sponsors' development costs.

5.4 AFUDC

TQM has applied to have amounts of AFUDC included in its rate base which relate to both development and other costs incurred by itself and each of the sponsors. Prior to 7 January 1982, the date on which the assets were transferred from the sponsors to TQM, AFUDC was calculated by the sponsors. Thereafter, AFUDC was calculated by TQM.

5.4.1 AFUDC Recorded by the Sponsors

The AFUDC recorded by the sponsors was calculated at the prime lending rate of the Royal Bank of Canada (in Calgary) pursuant to the General Partnership Agreement. One intervenor asserted that the AFUDC in respect of the sponsors' development costs should be calculated at their actual costs of capital by which it was apparently meant their respective allowed rates of return on rate base. In this connection, one of the sponsors noted that such an approach would have resulted in a higher amount of AFUDC, owing to the inclusion of an after tax equity rate of return in its allowed rate. As to the sources of capital employed, one sponsor asserted that its expenditures in respect of TQM had been funded entirely by debt, while the other asserted that it had used only equity funds. It was also noted during cross-examination that neither sponsor had issued securities the stated or express purpose of which was to raise funds for investment in the TQM project.

The Board recognizes the Applicant's position that NOVA's AFUDC on development costs is all equity AFUDC. However, the sponsors chose to use a borrowing rate to calculate the AFUDC associated with their development costs, and under the circumstances the Board considers it appropriate to deem all AFUDC on sponsors' development costs to be debt AFUDC. The Board is of the view that the prime lending rate used by the sponsors pursuant to the terms of the partnership agreement between them produces a reasonable charge in respect of AFUDC.

However, the Board is of the view that AFUDC should only be accrued from the time of the 16 May 1980 issuance of Order in Council P.C. 1980-24, which gave approval to Certificate No. GC-65 and caused the sponsors to go forward with the project. Accordingly, the Board has decided to disallow the AFUDC recorded in respect of the sponsors' development costs prior to 16 May 1980.

5.4.2 AFUDC Recorded by TQM

TQM has employed two methods in calculating AFUDC. The first was employed during the period 7 January to 30 April 1982. This method calculated the gross cost of total actual capital used to finance TQM, assuming a capital structure of 75 percent debt, 25 percent equity, and cost rates consistent with those allowed by Order No. TG-7-81. The gross cost so determined was then reduced by the return on rate base and any investment income earned. The residual represented the amount of AFUDC and was prorated to GPUC and other deferred debits

according to the balances outstanding at the end of the previous month.

The second method adopted was employed by TQM from 1 May 1982 forward. Under this method, AFUDC was calculated by applying the Company's allowed rate of return on rate base (calculated in accordance with the terms of Order No. TG-7-81) to the previous month-end balances of GPUC and Other Deferred Debits, excluding previously capitalized AFUDC.

The Board finds the two methods used by the Applicant to be reasonable in the circumstances of the periods to which they applied. Commencing 1 July 1983 the Board approves the continued use of the method employed from 1 May 1982.

5.4.3 Effects on TQM's Rate Base

In addition to the decision to disallow AFUDC recorded by the sponsors prior to 16 May 1980, the Board has also set forth decisions in sections 5.3.1 and 5.3.2 of this chapter to disallow a portion of the sponsors' development costs and to defer the inclusion in rate base of TQM's development costs and associated AFUDC. The effects of these decisions on TQM's rate base as of 1 July 1983 are given in Appendix X of these Reasons for Decision.

5.5 Working Capital

5.5.1 Introduction

The following table is a summary of the authorized working capital for the test period.

Table 5.5.1.1

	Hearing Evidence (\$000)	Adjust- ments (\$000)	Authorized by NEB (\$000)
Cash	1,143	(388)	755
Materials and Supplies	296	-	296
Transmission Line Pack	532	-	532
Prepayments	166	-	166
Downscaling	<u>2,588</u>	<u>(364)</u>	<u>2,224</u>
TOTAL	<u>4,725</u>	<u>(752)</u>	<u>3,973</u>

5.5.2 Cash

TQM requested, as part of working capital, an allowance for cash working capital calculated under the "45-day method" (ie., 150 percent of monthly Operation and Maintenance Expenses). TQM felt that it had insufficient experience to provide a cash time-lag analysis; it based its application for a 45-day allowance for cash working capital upon the premise that payment for services is made on the 15th day of the month following the month during which transportation is provided. TQM also claimed that the 45-day allowance was a standard one which had previously been utilized by other regulatory bodies.

Some intervenors disagreed with the application of the "45-day method" on the grounds that, in view of TQM's billing and payment procedures, an allowance calculated using this method would be excessive.

Not having done a time-lag study, TQM could not provide precise details of actual time lags. However, the record does provide information on certain key time periods which must be given consideration when deciding upon an appropriate cash working capital provision.

Under the General Terms and Conditions of the proposed Gas Transportation Tariff, TQM is to bill the shipper for a service month on or before the tenth day of the next month, and the shipper is to make payment by the twentieth day of that month. There should therefore be a lag of twenty days between the end of the service month and the time payment is received in respect of that month.

During cross-examination, a witness for the Applicant agreed that a month's expenditures are not all made on the first day of the month, but rather are made throughout the month. Upon further questioning, the witness indicated that TQM's Operation and Maintenance Expenses are recorded on a cash basis with two exceptions, the first being annual expenses such as audit fees which are accrued monthly, and the other being items which are booked towards the end of a month but not paid until the first week of the next month.

With respect to wages and salaries, a witness for the Applicant stated that all employees (except for those few that are part-time) are paid every second week, and that the pay period covers up to and including the day employees are paid. Since TQM's payroll is bi-weekly rather than monthly or semi-monthly, no fixed interval between the payment of salaries and wages and the collection of revenue through the cost of

service can be identified. However, one can conclude that payroll expenses on average are paid in the middle of the month during which an employee worked.

It is the opinion of the Board that the requirement for a 45-day cash working capital allowance has not been demonstrated by TQM. It is evident that both salaries and wages and most other operating and maintenance expenses are paid on average in the middle of the month. Since the TQM tariff calls for payments on the 20th of the following month, then the maximum cash working capital required would be 35 days. However, in view of the fact that TQM books some items towards the end of a month, but does not pay them until the first week of the next month, the time lag between payment date and receipt of revenue for these expenses is only 14 to 20 days. While it is recognized that a complete time lead/lag study would provide a more accurate estimate, under the circumstances, the Board considers an allowance equivalent to approximately 30 days of Operation and Maintenance Expenses would be appropriate.

The Board, therefore, will permit for the test period an allowance in rate base for cash working capital equal to one-sixth of the Operation and Maintenance Expenses approved by the Board. In addition, the Applicant is required to submit a lead/lag study at the time of filing its next toll application.

5.5.3 Downscaling Expenses

With the reduction in the scope of the project, as a result of circumstances largely beyond the Company's control, TQM downscaled its construction program, operations and organization. To carry out this reduction in activity, it incurred "downscaling costs" associated with employment terminations and office closings. The estimated expenses for 1982, 1983, and 1984 associated with the downscaling are shown in Exhibit 187 broken down into the following five categories: Leases, Severance Pay, Office Relocation Costs, Leasehold Improvements and Furniture.

The Applicant, believing that it would be inappropriate to charge the downscaling expenses to current operations, requested the Board's approval to:

- (1) defer the downscaling expenses incurred during the years 1982, 1983, and 1984;
- (2) amortize the 1982 and 1983 costs over a three-year period commencing 1 January 1984;

- (3) amortize the 1984 costs over a three-year period commencing 1 January 1985; and
- (4) include the unamortized balance in rate base.

During cross-examination, a witness for the Applicant explained that TQM was contractually obligated to take over the commitments of its engineering contractor, Canest, should its mandate be reduced or terminated. He indicated that the downscaling expenses identified as Leases, Leasehold Improvements and Furniture resulted from the termination of the original agreement with Canest. In addition, another witness explained that the Office Relocation Costs set out in Exhibit 187 reflect the rental costs of a small office being used to help relocate staff being terminated plus the salaries of two employees working in that office.

Two intervenors, the Ontario distributors and Gaz Métropolitain, inc., argued that ratepayers should not bear the entire cost of downscaling. The Ontario distributors did not put forward a proposed method of dealing with the downscaling expenses. Gaz Métropolitain, inc. indicated that it was opposed to the inclusion of the unamortized balance of the downscaling expenses in rate base but added that, if the Board accepted the amortization of these costs, they should be amortized over a period of at least three years.

The Board finds it appropriate that the provision for downscaling expenses to be included in rate base during the test period should be based on the total of the actual expenditures incurred in 1982 and the forecast for 1983. Under the fixed toll method of regulation, the deferred amount to be included in rate base shall be an average of the accumulated downscaling expense forecast to be incurred as at the beginning and end of the test period. For the purpose of this calculation, the Board finds it appropriate to assume that in 1983 downscaling expenses will be incurred uniformly in each month of the year. Therefore, the provision for downscaling expenses has been established by dividing the combined totals of accumulated expenditures estimated to be incurred as at 30 June 1983 and as at 31 December 1983 by two. This amount \$2.425 million, is to be amortized on a straight line basis over a period of three years commencing 1 July 1983. The Applicant is instructed to segregate the actual downscaling expenses as incurred during 1982 and 1983 in its accounting records, and bring these amounts forward for consideration by the Board in its next toll proceeding.

CHAPTER 6

RATE OF RETURN

6.1 Capital Structure

In its application, TQM requested that the Board allow actual capitalization ratios, based on targets of 75 percent debt and 25 percent equity, to be used in the determination of the Company's return on rate base. During cross-examination, a witness for the Company stated that it would strive to maintain the target ratios and that it was expected that any differences between the actual and target ratios on a monthly basis would be slight. In this connection, the evidence indicated that any variation could only result in an equity ratio exceeding the target of 25 percent, and therefore in higher tolls, owing to the greater return and tax costs associated with equity capital.

While no intervenor considered the use of the proposed target ratios for debt and equity to be inappropriate in arriving at the rate of return to be allowed TQM, there was some concern expressed by several intervenors with respect to the possibility of allowing TQM to incorporate returns in its tolls which were based on actual capitalization ratios rather than the targeted ones.

In view of the fact that TQM's target capital structure was stated to be 75 percent debt and 25 percent equity, the Board considers these ratios should be used in establishing TQM's fixed toll. The cost rates associated with each of the two forms of capital are discussed below.

6.2 Cost of Debt

The debt financing currently in place for TQM was obtained through a Bridge Financing Agreement negotiated with the Bank of Montreal. The cost rate associated with this bank financing is a floating one equal to the prevailing Bank of Montreal prime commercial rate plus one quarter of one percent.

Evidence presented in regard to this loan revealed that it is the intention of TQM and the Bank of Montreal to negotiate a twelve-year term credit which would replace the bridge loan, on or before its maturity date of 30 September 1983. Cross-examination revealed that such negotiations had yet to begin.

As to the Applicant's use of term credit bank financing, it was suggested by one intervenor that institutional credit at an interest rate fixed

at current levels could be less costly than bank credit at a floating rate. In this regard, both a Company witness and a witness for NOVA asserted that the only avenue to the requisite loan lay through the banks. However, the witness for NOVA went on to note that this did not mean that long-term fixed rate institutional financing might not possibly be accessed at some later date. In the same vein, the Bank of Montreal representative commented that, in general, while institutional funds might be more predictable and involve a longer repayment schedule, he saw no evidence to suggest that such financing would necessarily be less costly. This witness also stated that the proposed twelve-year term credit could not be negotiated through the banks so as to have a fixed rate which would be applicable for any more than one hundred and eighty days at a time.

The Board notes that the cost of debt financing has fluctuated considerably during the past year and that the chartered banks' prime rates have also fluctuated. While recently there has been less fluctuation, it is extremely difficult to predict the prime rate that will prevail during the balance of the term of the bridge financing.

Having regard to all of the evidence presented in connection with the current and proposed debt financing, the Board has decided that, for the test period 1 July to 31 December 1983, 12 percent (which corresponds to a prime rate of 11.75 percent) is a reasonable rate to be used to cost the debt component of the allowed capital structure. At such time as the negotiation of the term credit is completed, the Company shall serve copies of the agreement associated therewith upon the Board and all interested parties to this proceeding. The continued appropriateness of the approved cost rate will be examined at that time.

The Board has also decided that, with respect to the period 1 October 1982 through 30 June 1983, the Applicant is to cost the 75 percent debt component of the allowed capital structure at the actual monthly interest rates prevailing during that period pursuant to its financing arrangements with the Bank of Montreal.

6.3 Rate of Return on Equity

TQM has applied for a rate of return on equity of 17 percent, based on a target equity ratio of 25 percent. In requesting this rate of

return, the Company relied upon its expert's recommendation for a rate of 16.75 to 17 percent. In arriving at his recommendation, the Company's witness considered the equity risk premium, discounted cash flow (DCF) and comparable earnings approaches to estimating the cost of equity capital.

CPA and IPAC presented joint evidence in this matter and recommended a rate of return of 15.25 to 15.75 percent. In making this recommendation, their expert witness relied primarily on the DCF approach accompanied by an analysis of the appropriateness of the equity risk premium implicit in the result obtained from that technique.

Through his application of the equity risk premium approach, the Company's witness estimated that the investors' required rate of return (IRR) in respect of TQM for 1983 lay in the range of 15.5 to 15.75 percent. This IRR level incorporated an equity risk premium of 2.75 to 3 percent over the witness' estimate of the long-term corporate debt rate that would be applicable to TQM in 1983, which lay in the upper half of a range of 12 to 13 percent. This represented an increase in the equity risk premium from the 2 percent incorporated in the witness' original testimony. In this regard, the witness took the position that the increase of 75 to 100 basis points in the equity risk premium was reasonable insofar as such premia tend to increase in a declining cost of capital environment.

In his application of the DCF technique, the witness elected not to rely upon an analysis of several years of historical data. This was due to his belief that increasing costs of capital in recent years inflated in many cases historical growth rates in earnings, making them of questionable value as estimates of, or proxies for, future growth rates. Thus, the witness relied essentially upon an analysis of four recent share issues to test whether or not the IRR values flowing from his equity risk premium approach produced a reasonable result. He viewed his findings based upon this analysis as supportive of the range of IRR values derived from his application of the equity risk premium approach.

Having established his estimated IRR range of 15.5 to 15.75 percent, the witness proceeded to express it in terms of what he viewed as an appropriate rate of return on book equity range of 16.75 to 17 percent. This percent range implied market to book ratios ranging from 1.10 to 1.20 and was based on the witness' belief that a company such as TQM should strive to maintain a market to book ratio of 1.20, to permit the attraction of equity capital without diluting

existing shareholders' equity and impairing the financial integrity of the Company. The Applicant noted in final argument that the spread of 125 basis points between its witness' IRR range and his rate of return on book equity recommendation represented an allowance for flotation costs.

With respect to the comparable earnings test, the witness stated that while he had not established a specific set of selection criteria, his sample of Canadian industrial companies was intended to contain companies having investment risk comparable to that exhibited by public utilities. The average and median rates of return on common book equity experienced by the companies in this sample in 1981 were 14.4 and 14.6 percent respectively. The witness went on to state that Canadian industrials earned substantially lower returns in 1982 and that, even though returns in 1983 were expected to increase, they would not reach the levels attained in 1981. He held the view that these expected returns would not allow the companies to maintain financial integrity and, therefore, that they could not serve as an appropriate comparable earnings benchmark in establishing a fair and reasonable rate of return on equity for TQM.

The witness for CPA/IPAC arrived at his rate of return recommendation by first employing the DCF technique in reference to a group of Canadian industrial companies which he viewed as exhibiting low investment risk. His estimate of the IRR for this group of companies lay in the range of 14 to 15.5 percent. Because of his view that the utility activities of established Canadian gas transmission companies are of lesser risk than the activities of the industrial companies included in his sample, the witness adopted an IRR range of 14.2 to 14.7 percent as being relevant to the former companies.

The witness then added 80 basis points to this range to take into account his views as to the risk differential between TQM and the established Canadian gas transmission companies. During cross-examination, the witness stated that 30 of the 80 basis points were intended to reflect the risk to which TQM would be subject if its allowed tolls did not ensure the collection of the actual interest expense incurred by the Company.

In arriving at his final rate of return recommendation of 15.25 to 15.75 percent, the witness incorporated an allowance for flotation costs of 25 basis points. This allowance took into account his view that the costs of raising equity capital were actually incurred by the partners and that the partners only raise a fraction of their total equity requirements externally.

During cross-examination, the witness pointed out that, subsequent to the time of making his recommendation of 15.25 to 15.75 percent, interest rates had continued to fall and the dividend yield for his sample of industrials had decreased by 70 basis points from a level of 5 percent in the period August to October 1982 to a level of 4.3 percent in the period December 1982 to February 1983. While neither of these events led the witness to alter his recommended rate of return range, he did suggest that, given these factors, it would be more appropriate to focus on the lower end of the 15.25 to 15.75 percent range.

With respect to the equity risk premium implicit in their expert witness' recommendation, CPA/IPAC noted in final argument that, as of early March 1983, the spreads between the lower end of his range of 15.25 percent and the yields on long-term Government of Canada Bonds and high quality corporate bonds were 3.45 percent and 2.40 percent respectively. CPA/IPAC also noted that the spreads between the lower end of the range recommended by the Company's witness and federal government and corporate bond yields were 4.95 percent and 3.90 percent respectively. CPA/IPAC took the position that the spread provided for by their witness was extremely generous in light of recent rate of return determinations and current capital market conditions.

The determination of an appropriate rate of return on equity involves the use of methods which are necessarily indirect and subject to the exercise of judgment. Based upon its consideration of all of the evidence presented and

having regard to its decision to establish a fixed toll method of regulation and its decision in respect of capital structure, the Board finds 15.60 percent to be a fair and reasonable rate of return on equity for the test period 1 July to 31 December 1983.

As a result of the Board's decision with respect to the allowed cost of debt set forth in a previous section of this chapter, TQM has the assurance of recovering its actual debt costs during the period 1 October 1982 through 30 June 1983. Because the evidence indicated that the assured recovery of its actual debt costs decreased the level of risk faced by the Company, the Board has also decided that, for the 1 October 1982 to 30 June 1983 period, TQM shall cost the 25 percent equity component of the allowed capital structure at 15.30 percent.

6.4 Rate of Return on Rate Base

Based upon all of its findings in this case, the Board has decided that a rate of return on rate base of 12.90 percent is fair and reasonable for the test period 1 July to 31 December 1983. The derivation of this rate of return is provided below:

	<u>Capital Structure (%)</u>	<u>Cost Rate (%)</u>	<u>Cost Component (%)</u>
Debt	75.0	12.00	9.00
Equity	<u>25.0</u>	15.60	<u>3.90</u>
	<u>100.0</u>		<u>12.90</u>

CHAPTER 7

COST OF SERVICE

7.1 Introduction

Table 7.1.1

Authorized Cost of Service

Test Period 1 July 1983 to 31 December 1983
(\$000)

	<u>Hearing Evidence</u>	<u>Adjust- ments</u>	<u>Authorized by NEB</u>
Operating and Maintenance	4,532	-	4,532
Depreciation and Amortization	4,814	1,771	6,585
Income Taxes	7,231	(7,231)	-
Taxes Other than Income Taxes	2,011	(587)	1,424
Return on Rate Base	<u>32,944</u>	<u>(7,702)</u>	<u>25,242</u>
TOTAL COST OF SERVICE	<u>51,532</u>	<u>(13,749)</u>	<u>37,783</u>

7.2 Operating and Maintenance Expenses

7.2.1 Wages, Salaries and Employee Benefits

The Applicant provided evidence to the effect that studies, both in-house and by consultants, confirmed that TQM salary structures in 1981 were in line with those of industries in the competitive marketplace for employees. The Applicant escalated its 1981 levels for wages and salaries by 12.5 percent for the 1982 base year and by a further 6 percent in 1983. As well, in order to further comply with the federal government's restraint program, no provision was made for annual bonuses or progression payments.

Although items such as relocation allowances, tax equalization payments and bonuses were not included in the salary structures referred to in the preceeding paragraph, the Company viewed them as incentives which were necessary to attract and maintain quality staff; that is why such items were originally part of TQM's remuneration package.

The Company made no changes to the direct employee benefit plans between 1982 and 1983. Direct benefits in 1982 were 11.79 percent of salaries and wages inclusive of fringe benefits such as relocation allowances and tax equalization. In 1983 proposed benefits are 16 percent of wages and salaries. The Applicant explained that the increase in the ratio of benefits to wages and salaries in 1983 as compared to the base year is due to increased benefit premiums, recognizing that the wages and salaries component decreased as a result of phasing out the relocation allowances and tax equalization payments, and that bonuses were eliminated. It was also noted that some benefits are only applicable following a period of service with the Company. The many staff additions in building the work force for a new enterprise meant that many employees only became eligible for benefits in 1983.

Several intervenors questioned the acceptability of TQM salaries, inclusive of fringe and direct benefits, in comparison with the combined salaries and benefits of other industries. The Board notes that if both direct and fringe benefits were combined in 1982, benefits would increase from 11.79 to 14 percent of salaries and wages. This ratio and the proposed 16 percent for 1983 are in line with comparable industries' ratios of benefits to wages and salaries which range from 15 to 23 percent.

For 1982, Company witnesses attributed the larger number of employees required above the estimates in the original Gas East Application to added responsibilities assumed by TQM, such as increased accounting, engineering, safety and security. TQM projects an over-all reduction of personnel in 1983 due to changes in the scope of its project. Of the 187 employees predicted for 31 December 1983, the Company estimated that 124 would be required to administer, operate and maintain the pipeline without any major capital additions. The Applicant's Personnel Coordinator testified that the Company had not compared its predicted level of employees with other operating pipeline companies' manpower requirements, but would eventually do so.

Gaz Métropolitain inc. suggested that TQM's predicted number of employees required to operate and maintain the pipeline appeared to be considerably higher than the number of employees so required by other Canadian pipelines. The suggestion was based on a ratio of the number of

employees to the length of pipeline. Witnesses for the Applicant stated that such a comparison did not take into account the fixed number of administrative staff required in any company, regardless of the size of its operations.

The Board accepts the estimated number of employees required to operate and maintain the pipeline as reasonable in the context of the Company's downscaling of activities. It is the Board's view that the wage and salary escalation rates of 12.5 percent in 1982 and 6 percent in 1983 are reasonable and the Board accepts the Company's proposed cost of employee benefits in 1983. Accordingly, the amounts requested for salaries and wages for 1982 and 1983 are approved for inclusion in the cost of service.

The Board notes that beginning in August 1983, the Applicant will be operating without any major capital projects in progress and, as stated in the Applicant's Personnel Coordinator's testimony, will be able to conduct comparative studies of TQM's actual manpower levels with other pipeline companies' manpower requirements. The Board directs the Applicant to undertake such a comprehensive review of its manpower requirements and salary structures and to submit a report thereon to the Board prior to the Company's next toll hearing.

7.2.2 1982 O & M Budget Overruns

In its November 1981 application, TQM requested approval of its O & M budget of \$7,819,000 for the twelve months ending 30 November 1982. The Board approved an amount of \$5,864,250 for the same period under Order No. TG-7-81. Initial delivery of gas began on 12 February 1982 on the section of the system between St-Lazare and Boisbriand. During the period between 12 February and 30 November 1982, TQM's actual expenses exceeded the approved budget by \$1,347,196. The overrun occurred in the months of October and November 1982 in the amounts of \$342,706 and \$1,004,490, respectively and, in accordance with TG-7-81, was deferred pending future disposition by the Board. The Applicant proposed to collect interest on the deferred amount at the prime rate plus one quarter of one percent.

The matter of the appropriateness of TQM's O & M expenses was considered at the hearing by way of evidence and cross-examination. There was no evidence that any of the actual O & M costs incurred by TQM were not legitimate costs to be recovered in TQM's toll.

Accordingly, the Board approves collection of the \$1,347,196 budget overrun plus interest from the date of deferral to 30 June 1983 at the rate of return on rate base the Board has authorized for the period.

7.2.3 Purchase and Sale of Gas by TQM

Under the NEB Gas Pipeline Uniform Accounting Regulations gas purchases are to be recorded in Account 623 and the revenues from the sale of gas in Canada are to be recorded in Account 500. TQM asked for the Board's approval to include the revenues from its sale of gas as a deduction from the balance in Account 623 instead of in Account 500. TQM stated that this was a way to remove the revenues from the sale of gas from the transmission costs.

The Board does not believe that TQM demonstrated a need to depart from the Uniform Accounting Regulations; recording the purchase and sale of gas in the manner required by the Regulations will not result in sales revenues being included in transmission costs. Accordingly, TQM's request is denied.

7.3 Depreciation and Amortization

TQM applied for a set of depreciation rates which it stated were based largely on its cash flow requirements for financing. It also noted that the rates were similar to those approved by the Board for Foothills. Under cross-examination, the Applicant's witnesses stated that no depreciation studies had been undertaken.

During the hearing, various intervenors questioned TQM's proposed depreciation rates and in their written argument asked that the Board be guided by the traditional principles of depreciation and not those proposed by TQM.

The Board does not consider the rationale given by TQM for its proposed depreciation rates to be sufficient to justify their use. In the Board's view, depreciation rates should be based on the recovery of the cost of the applicable assets over a period which represents a combination of their expected physical and economic lives rather than over a period the length of which would be related to financing considerations. In the absence of a specific depreciation study of TQM's assets, the Board considers that the rates specified in TG-7-81 are acceptable for the period up to 30 June 1983 and the following depreciation rates are appropriate commencing 1 July 1983.

<u>Depreciable Class of Gas Plant in Service</u>	<u>NEB Account Number</u>	<u>Authorized Depreciation Rate Effective 1 July 1983</u>
Franchises and Consents	401	2.75
Land Rights	461	2.75
Measuring and Regulating Structures and Improvements	463	3.50
Mains	465	2.75
Measuring and Regulating Equipment	467	3.50
Unclassified Plant	496	2.75
Communication Structures and Equipment	468	10.00
Other Transmission Equipment	469	10.00
Structures and Improvements	482	10.00
Office Furniture and Equipment	483	7.00
Transportation Equipment	484	20.00
Heavy Work Equipment	485	10.00
Tools and Work Equipment	486	7.00
Communication Structures and Equipment	488	10.00
Other Equipment	489	10.00

In addition, the Board requires the Applicant to submit before its next toll hearing, a depreciation study as required by the Gas Uniform Accounting Regulations.

Accordingly, the following are the amounts included in the cost of service for depreciation and amortization expense:

	(\$000)
<u>Depreciation Expense Related to:</u>	
GPIS (excluding Franchises and Consents)	5,595
<u>Amortization Expense Related to:</u>	
GPIS (Franchises and Consents)	294
Project Costs	294
Downscaling Expenses	402
Total Depreciation and Amortization Expense	<u>6,585</u>

7.4 Income Taxes

The Applicant has requested approval to calculate its income tax provision on a normalized stand-alone basis. This approach would provide for the inclusion of an income tax component in the Applicant's cost of service which is based on accounting rather than taxable income. The Applicant also requested acceptance of the assumption that TQM is a taxable corporate entity in the Province of Quebec, notwithstanding that neither it nor the partnership for which it acts as mandatary are subject to tax on the profits of the TQM pipeline.

In respect of the stand-alone issue the Applicant took the position that since the revenue collected through TQM's tolls is ultimately subject to tax in the partners' hands, the revenue requirement must recognize and provide for income taxes. Only one intervenor commented on this matter, stating that as long as there is a tax cost to the Applicant it should be reflected in the cost of service.

The evidence presented indicated that under the income tax rules applicable to partnerships, the partners are subject to tax as if they were individually carrying on their share of the business. Since the two partners in TQM are corporations they would together be taxed on the total income of the partnership at corporate rates. Accordingly, the Board agrees that an allowance for income taxes should properly be included in the Applicant's cost of service as if it were a corporation subject to tax in the Province of Quebec.

With respect to the matter of whether the income tax allowance to be included in the Applicant's toll should be calculated on a normalized or flow-through basis, several considerations were addressed by both the Applicant and the intervenors. These included the following:

- (1) Intergenerational equity between present and future customers.
- (2) Need for funds/capital requirements.
- (3) Cash flow benefit of deferred taxes.
- (4) Recommendation of Canadian Institute of Chartered Accountants (CICA).
- (5) Matching principle.

After giving full consideration both to the evidence and arguments submitted by the Applicant and intervenors, and having in mind the

present economic conditions, the Board has concluded that the allowance for income taxes to be included in TQM's tolls should be calculated on a flow-through basis. One intervenor questioned the income tax calculations submitted by the Applicant. The Board notes that no income taxes would be payable for 1982 and 1983. Accordingly, the Board has not dealt with the appropriate manner of calculating the income tax provision since no allowance for income taxes is to be included in the approved toll at this time.

7.5 Taxes Other Than Income Taxes

7.5.1 Corporate Capital Taxes

In its application, TQM calculated the corporate capital tax provision as though TQM were a corporation with an establishment in the province of Quebec. Using this method, capital tax was calculated to be \$1,795,000 and \$2,209,000 for 1982 and 1983 respectively.

The Applicant recognized that the allowance for capital tax applied for was greater than that which would actually be payable under the provisions of the Quebec Taxation Act. The justification put forward by TQM for the inclusion of this greater amount was that the Company's proposal was consistent with the stand-alone approach, and that any benefit to the partners through this approach would be offset by a reduced allowance for income tax since the income tax rate deemed on a stand-alone basis would be lower than a composite of the partners' tax rates.

During cross-examination, the merit of calculating capital tax in this manner was questioned. As a result of continued questioning, the Applicant clarified its position, indicating that it recognized that the liability to pay this tax rested with the partners since the Quebec Taxation Act defines them to be the corporations with establishments in that province. In response to questions by the Board, the Applicant provided estimates of the tax calculated on the paid-up capital of the sponsors in the amount of \$1,148,000 for each of the years 1982 and 1983.

The Board believes the costs which are included as part of the cost of service in establishing the tolls of a pipeline should represent amounts which will be incurred and eventually paid in connection with providing transportation service. In deciding what costs should be included, regard must be had for the actual situation and operating circumstances under which the service is provided and the expenses incurred. Accordingly, the Board has decided that the amount of capital tax which should be allowed for in calculating the

cost of service should be the actual amount which will be paid to the Quebec government. This tax will be paid by the partners, not by TQM. The amount of tax the Board allows to be included in the cost of service will be the sum of the amounts of capital tax to be paid to the Quebec government by each of the partners with regard to their investment in the TQM pipeline, having regard to the formula for allocating the taxable capital of each partner to what is considered to be its Quebec TQM operations under the Quebec Taxation Act. The amount approved for inclusion in the cost of service is \$574,000 for the test period, 1 July to 31 December 1983.

As to the period before 1 July 1983, the Board notes that the Company has been including in its toll an allowance for capital taxes calculated in the manner proposed in its application. Thus, the amounts included in respect of the period commencing 1 October 1982 are in excess of the amounts that would have been allowed in the toll had the method approved by the Board herein been used. Accordingly, the Board requires that the toll for this period be adjusted pursuant to Order No. TG-3-83.

7.5.2 Municipal Taxes

TQM applied for an allowance for municipal taxes of \$542,000 for 1982 and \$1,480,000 for 1983. The taxes were calculated by applying the median tax rate of various municipalities to the total kilometers of pipeline within each municipality.


The Board finds TQM's provision for municipal taxes to be acceptable and accordingly approves the inclusion of \$850,000 in the cost of service for the test period.

CHAPTER 8


DISPOSITION

Order Nos. TG-2-83 and TG-3-83, which are shown as Appendices II and III respectively, were predicated upon these Reasons for Decision. The foregoing chapters, together with the above

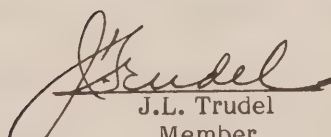
Orders, constitute our Reasons for Decision and our Decision on the applications by Trans Québec & Maritimes Pipeline Inc. pursuant to Part IV of the NEB Act.



R.F. Brooks
Presiding Member



J.R. Hardie
Member



J.L. Trudel
Member

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. AO-3-RH-4-82

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans Québec & Maritimes Pipeline Inc. for certain orders respecting tolls and tariffs under Sections 50, 51, and 52 of the Act, filed with the Board under File No. 1562-T28-2.

B E F O R E the Board on Wednesday, the 15th day of September, 1982.

UPON the Board having received an Application dated 18 November 1981 and a supplemental application dated 9 August 1982, both filed by Trans Québec & Maritimes Pipeline Inc;

It is ordered that:

1. Orders No. RH-4-82, AO-1-RH-4-82 and AO-2-RH-4-82 are revoked and the following substituted therefore:

"Upon Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "the Applicant") having filed an application dated 18 November 1981 for approval by the Board of a tariff filed in accordance with section 51 of the Act and for orders under sections 50 and 52 of the Act fixing the just and reasonable tolls to be charged by the Applicant for the transmission of natural gas;

- 2 -

AND UPON the Board, by its Order No. TG-7-81 dated 10 December 1981 issued pursuant to section 54 of the Act, having suspended the Gas Transportation Tariff filed with the Board by the Applicant on 18 November 1981 and having ordered certain alterations to the said tariff pending a full review of the said application;

AND UPON the Applicant having filed with the Board, on 7 January 1982 a revised Gas Transportation Tariff, and on 1 February 1982 certain Service Agreements, in accordance with the said Order No. TG-7-81;

AND UPON the said revised Gas Transportation Tariff having come into effect on 12 February 1982;

AND UPON the Board by its Order No. RH-4-82 having set the application down for hearing in two phases, Phase I to have commenced on 1 June 1982;

AND UPON the Board by its Order No. AO-1-RH-4-82 having revised the subject matter to be considered in Phase 2 of the said hearing;

AND UPON the Board having adjourned the said hearing and given notice to the Applicant and intervenors by telex dated 25 May 1982;

AND UPON the Board by its Order No. AO-2-RH-4-82 having set the application down for a single phase hearing, to have commenced on 28 September 1982;

AND UPON the Applicant having filed a Supplemental Application, dated 9 August 1982;

AND UPON the Board having considered certain motions to postpone the commencement of the said hearing;

.../3

It is ordered that:

1. The application will be heard at a single phase public hearing commencing at 9:30 a.m. local time, on Tuesday, the 30th day of November 1982 in the Hearing Room of the National Energy Board, Trebla Building, 473 Albert Street, Ottawa, Ontario, (hereinafter referred to as "the Hearing").
2. The Hearing will be conducted in either official language and simultaneous translation will be provided should any party to the Hearing request such facilities in his intervention.
3. The subjects to be covered in the Hearing are:
 - (a) The method of regulation including:
 - (1) the alternatives of a fixed toll or variable cost of service toll including:
 - (A) the effect of any Federal Government contributions
 - (B) the effect of the Applicant having no beneficial ownership of the pipeline assets.
 - (b) Rate Base,
 - (c) Cost of Service excluding return on rate base and the allowance for income taxes,
 - (d) Desirability of, and possible methods for levelling of the tariff,
 - (e) Allowance for income taxes,
 - (f) Return on rate base,

.../4

- 4 -

- (g) Form and content of the transportation tariff,
- (h) Any other matters relating to the tolls and tariffs.

4. The Applicant shall, as soon as possible, and where it has not already done so pursuant to Board Order No. RH-4-82 as amended, serve a copy of its application, supplemental application and any amendments thereto and of this Order on the Attorney's General for the Provinces of Alberta and Saskatchewan; the Canadian Gas Association; those parties listed in Annex II to this Order; the Applicant's customers; and those parties who have intervened pursuant to paragraph 7.

5. The Applicant shall prepare written direct evidence in question and answer form with numbered lines for each of its witnesses and shall, where it has not already done so, but no later than 8 October 1982,

- (a) file 35 copies with the Secretary of the Board, and
- (b) serve one copy on each party listed in Annex II and on each party who has intervened pursuant to paragraph 7.

6. Notwithstanding paragraph 5, the Applicant's written direct evidence concerning Levelling shall be filed and served no later than 24 November 1982 but may be filed and served prior to that date.

.../5

7. Any person intending to intervene in the Hearing shall, if he has not already done so pursuant to Board Order RH-4-82, as amended, but not later than 15 October 1982, file with the Secretary of the Board 35 copies of a written statement, in either official language, containing his submission together with any supporting material. This submission shall contain a concise statement of the facts from which the intervenor's interest in the proceedings may be determined; it shall be endorsed with the name and address of the intervenor or his solicitor to whom communications may be sent; and it shall state the official language in which the intervenor wishes to be heard.

8. Intervenors shall serve, as soon as possible, if they have not already done so, three copies of their submission on the Applicant and one copy on each party listed in Annex II and on each party who has intervened pursuant to paragraph 7.

9. Any party who files a statement of intervention after 15 October 1982 shall file and serve a notice of motion requesting leave to take part in the Hearing. Such notice shall be filed and served in accordance with paragraph 6 of the Rules and Procedures set out in Annex 1 to this Order.

10. Any intervenor who wishes to present direct evidence in the Hearing shall, unless exempted by the Board, prepare written direct evidence in question and answer form with numbered lines for each of its witnesses and shall, no later than 10 December 1982,

- (a) file 35 copies with the Secretary of the Board, and

.../6

- 6 -

- (b) . serve three copies on the Applicant and one copy on each party listed in Annex II and on each party who has intervened pursuant to paragraph 7.

11. All requests for information submitted to the Applicant prior to 15 September 1982 shall be answered by the Applicant no later than 8 October 1982, and the Applicant shall,

- (a) file 35 copies with the Secretary of the Board, and
- (b) serve one copy of the information request and of its answer thereto on each party listed in Annex II and on each party who has intervened pursuant to paragraph 7.

12. Any party intending to request information as a result of his examination of filings required to be made prior to 8 October 1982 shall, where he has not already done so, but no later than 29 October 1982,

- (a) file 35 copies with the Secretary of the Board, and
- (b) serve three copies on the Applicant and one copy on each party listed in Annex II and on each party who has intervened pursuant to paragraph 7.

.../7

13. Where any party has received an information request pursuant to paragraph 12, he shall answer the request and shall, within 20 days of receipt of the request,

- (a) file 35 copies with the Secretary of the Board, and
- (b) serve one copy of his answer thereto on the Applicant; on each party listed in Annex II; and on each party who has intervened pursuant to paragraph 7.

14. The Board will determine, as individual situations warrant, the procedure to be followed if an information request is made by any party as a result of that party's examination of filings made after 8 October 1982.

15. Any party who has documents, which are required to be served by any Order of the Board relating to this Hearing, on other parties to the Hearing and who feels that this requirement of service would create an undue burden on him, may apply to the Board for relief from the requirement of service. If relief is granted, the party shall provide the Board with such number of copies of the documents in respect of which relief was granted as the Board may request, which copies shall be available for public examination at the offices of the Board and with the Court Clerk during the Hearing. The party shall also make these documents available at such other locations and in such number of copies as the Board may direct.

16. The Rules and Procedures set out in Annex I to this Order shall apply in the conduct of the Hearing.

17. The application of the Applicant for leave under Rule 22 of the National Energy Board Rules of Practice and Procedure is denied, without prejudice to a further application in accordance with paragraph 6 of the Rules and Procedures set out in Annex I to this Order, by the Applicant, any party listed in Annex II or any party who has intervened pursuant to paragraph 7, which identifies specific evidence taken before, or specific reports, findings or orders of the Board or of a provincial tribunal. Wherever possible, such applications should be made on or before the applicable date fixed for the filing of written direct evidence.

18. Any interested party may examine a copy of the application and submissions filed at the following locations:


National Energy Board
Trebla Building
473 Albert Street
Ottawa, Ontario
K1A 0E5

or

3303 - 33rd Street N.W.
Calgary, Alberta
T2L 2A7

Trans Québec & Maritimes Pipeline Inc.
870 Boul. de Maisonneuve East
Montreal, Quebec
H2L 1Y6

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

ANNEX I TO
ORDER AO-3-RH-4-82

Rules and Procedures

1. In these Rules, "party" means Trans Québec & Maritimes Inc., any person listed in Annex II, or any intervenor who has filed with the Secretary of the Board a written statement.
2. In the Hearing, the Board will hear all of the evidence on each of the items referred to in paragraph 3 of the Order, item by item and for that purpose the Board will hear first all of the evidence of the Applicant on all of the items and then will hear all of the evidence of each intervenor in turn.
3. On completion of the evidence on all the items referred to in paragraph 3 of the Order, the Board will hear the oral argument of all the parties.
4. Any party receiving an information request shall file the information request and its response together as an exhibit at the Hearing.
- 5.(a) A party who is unwilling or unable to provide a full and adequate written response to a request for information shall set out the reasons therefore and shall,
 - (i) file 35 copies with the Secretary of the Board, and
 - (ii) serve one copy of the request and of such reasons on the Applicant, on every party listed in Annex II and on every party who intervened pursuant to paragraph 8.
- (b) Any party continuing to seek the disclosure of the information referred to in paragraph 5(a) may file a notice of motion with the Secretary of the Board in accordance with paragraph 6 of these Rules and Procedures.
6. If any question arises upon which the decision of the Board may be required, 5 copies of a notice of motion with respect thereto shall be filed with the Secretary of the Board and one copy served on the Applicant and on each intervenor, and the motion will be heard by the Board on a date to be fixed by it.
7. Any party who files a submission or written direct evidence in accordance with paragraphs 5, 6, 7 or 10 of the Order, or a notice of motion pursuant to paragraph 6 hereof, shall at the opening of the hearing file proof of service thereof and two copies of the submission, evidence or notice.
8. The order of appearance of parties and the sequence of adducing evidence and of conducting cross-examination will be announced by the Board at or before the opening of the hearing.

ADDRESS LIST - INTERESTED PARTIES OF RECORD
LISTE D'ADRESSES - PARTIES INTERESSEES AU DOSSIER

Mr. D.C. Hetland
Alberta Petroleum Marketing Commission
1900, 250 - 6th Avenue S.W.
Calgary, Alberta
T2P 3H7

and/et

Mr. Alan S. Hollingworth
McLaws & Company
Barristers & Solicitors
6th Floor
407-8th Avenue S.W.
Calgary, Alberta
T2P 1E6

Mr. D.B. Macnamara
Secretary and General Counsel
Canadian Petroleum Association
1500, 633 Sixth Avenue S.W.
Calgary, Alberta
T2P 2Y5

Mr. R.S. Johnson
Director of Regulatory Affairs
Dome Petroleum Limited
333 - 7th Avenue S.W.
P.O. Box 200
Calgary, Alberta
T2P 2H8

and/et

Mr. James H. Smellie
Herridge, Tolmie
116 Albert Street
Ottawa, Ontario
K1P 5G3

M. Gérald Backeland
Directeur Approvisionnement
Gaz Inter-Cité Québec Inc.
Place d'Iberville deux
1175, Avenue de Lavigerie
Ste-Foy, Québec
G1V 4P1

and/et

Me Yvon Brisson
Mes Guy, Mercier, Bertrand,
Bourgeois & Laurent
1010, rue Sherbrooke ouest
Suite 2306
Montréal, Québec
H3A 2R7

Me Françoise Bureau
Gaz Métropolitain, inc.
1155 ouest, boul. Dorchester
32ième étage
Montréal, Québec
H3B 3S7

and/et

Me Ann Bigué
Clarkson, Tétrault,
630 ouest, boul. Dorchester
22ième étage
Montréal, Québec
H3B 1V7

J.B. deGrasse, Esq.
ICG Brunswick Gas Ltd.
Suite 630, King Street Tower
440 King Street
Fredericton, New Brunswick
E3B 5H8

and/et

A. David Case, Esq.
Messrs. Clark, Drummie &
Company
P.O. Box 6850, Station "A"
40 Wellington Row
Saint John, New Brunswick
E2L 4S3

M.G. Meacher, Esq.
ICG Scotia Gas Limited
P.O. Box 907
Halifax, Nova Scotia

and/et

J.C.K. Stobie, Esq.
Stewart, MacKeen & Covert
Barristers and Solicitors
1583 Hollis Street
Halifax, Nova Scotia
B3J 2X2

ANNEX II
Order AO-3-RH-4-82
Page 2 of 3

Mr. William J. Hartnett
Barrister & Solicitor
Imperial Oil Limited
111 St. Clair Avenue West
Toronto, Ontario
M5W 1K3

Mr. A.E. Potter
Manager/Regulatory Affairs
Independent Petroleum Association
of Canada
700, 707 - 7th Avenue S.W.
Calgary, Alberta
T2P 0Z2

Peter C.P. Thompson, Q.C.
Messrs. Scott & Aylen
Barristers and Solicitors
170 Laurier Avenue West
Ottawa, Ontario
K1P 5V5

and/et

Dr. A.W. Birnie
Executive Director
Industrial Gas Users Association
206 Laurier Avenue West
2nd Floor
Ottawa, Ontario
K1P 5J8

C.J. Maciorowski, Esq.
NOVA, AN ALBERTA CORPORATION
23rd Floor, Bow Valley Square II
205 - 5th Avenue S.W.
Calgary, Alberta

and/et

John Hopwood, Esq., Q.C.
Messrs. Howard, Mackie
Barristers and Solicitors
300, 330 - 5th Avenue S.W.
Calgary, Alberta
T2P 0L4

Mr. K.F. Keeler
General Counsel
Pan-Alberta Gas Ltd.
350 Bow Valley Square I
202 - 6th Avenue S.W.
Calgary, Alberta
T2P 2R9

Me Jean Giroux, avocat
Service juridique
Ministère de l'Energie et des
Ressources
200B, chemin Ste-Foy, 6e étage
Québec, (Québec)
G1R 5H2

and/et

M. Roch Veilleux
Ministère de l'Energie et des
Ressources
8, rue Cook
Québec (Québec)
G1R 5H2

Katherine D. Wellman
Legal Counsel
Saskatchewan Power Corporation
2025 Victoria Avenue
Regina, Saskatchewan
S4P 0S1

Me René Bédard
Directeur général du Contentieux
La Société québécoise
d'initiatives pétrolières
1175, rue de Lavigerie
C.P. 10650
Sainte-Foy (Québec)
G1V 4P5

Jerry H. Farrell, Esq.
Smith, Lyons, Torrance, Stevenson
& Mayer
Suite 3400
The Exchange Tower
P.O. Box 420
2 First Canadian Place
Toronto, Ontario
M5X 1J3

and/et

Ronald S. Lougheed, Esq.
Senior Vice-President
Gas Supply and Development
The Consumers' Gas Company Ltd.
Suite 4200
First Bank Tower
P.O. Box 90
1 First Canadian Place
Toronto, Ontario
M5X 1C5

ANNEX II
Order No. AO-3-RH-4-8
Page 3 of 3

Mr. John M. Johnson, Q.C.
Director
Legal Services
Ministry of Energy
12th Floor
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Toronto, Ontario
M7A 2R7

Mr. Neville D. Shende
Counsel
6th Floor, Woodsworth Building
405 Broadway Avenue
Winnipeg, Manitoba
R3C 3L6

and/et

Mr. R.B. Ball
Senior Research Economist
Department of Energy & Mines
Province of Manitoba
203 - Colony Square
500 Portage Avenue
Winnipeg, Manitoba
R3C 0G1

Mr. William F. Denny
Executive Director
Special Projects
Department of Commerce and
Development
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Fredericton, New Brunswick
E3B 5H1

Mr. Milton J. Veniot
Crosby, Veniot & Jessome
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P.O. Box 1148
Halifax, Nova Scotia
B3J 2X1

and/et

Mr. John D. French
Director
Energy Management Division
Department of Mines & Energy
1690 Hollis Street
P.O. Box 668
Halifax, Nova Scotia
B3J 2T3

Mr. T. Dalglish
TransCanada PipeLines Limited
P.O. Box 54
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Toronto, Ontario
M5L 1C2

Mr. A. Butler
Manager, Regulatory Administration
Union Gas Limited
50 Keil Drive North
Chatham, Ontario
N7M 5M1

Mr. Tom Good
Energy Critic
New Brunswick
New Democratic Party
266 Winslow Street
Fredericton, New Brunswick
E3B 2A1

G.A. Irving, Esq.
Secretary and General Counsel
Trans Mountain Pipe Line Company
Ltd.
Suite 800
601 West Broadway
Vancouver, B.C.
V5Z 4C5

Mr. Peter F. Scully
General Counsel
Northern and Central Gas
Corporation Limited
245 Yorkland Boulevard
Willowdale, Ontario
M2J 1R1

ORDER NO. TG-7-81

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;
and

IN THE MATTER OF the filing by Trans Québec
& Maritimes Pipeline Inc. of a certain
tariff with the Board pursuant to Part IV
of the National Energy Board Act, filed with
the Board under File No. 1562-T28-2.

B E F O R E the Board on Thursday, the 10th day of December,
1981.

UPON Trans Québec & Maritimes Pipeline Inc. (here-
inafter referred to as "the Company") having filed with the
Board, pursuant to Part IV of the National Energy Board Act,
a tariff, which tariff by its terms is to be effective as of
the 1st day of December, 1981, or at such other date of
commencement of service for the facilities authorized by
Certificate No. GC-64;

AND UPON the Company having filed supporting
information in a submission dated the 18th day of November,
1981;

AND UPON the Company, in conjunction with filing
the said tariff, having sought an order or orders under
Part IV of the National Energy Board Act by application dated
the 18th day of November, 1981;

- 2 -

AND UPON it appearing that the Board will be unable to conclude the public hearing of the said application before the date of commencement of service for the facilities to Boisbriand, in the Province of Quebec, authorized by Certificate No. GC-64;

AND UPON the Board, after considering the Company's tariff and all supporting information filed by the Company, having found that it is not satisfied that the tolls determined in accordance with the said tariff are just and reasonable;

AND UPON the Board having determined that it is desirable to ensure that the Company may commence to charge tolls pending the said public hearing; and upon the Board in reaching that determination having found that:

- (a) no amount of amortization expense should be authorized pending a public hearing;
- (b) the Company is not expected to incur any income taxes payable during the period prior to the conclusion of the above-mentioned public hearing and no provision for income taxes should be made in the cost of service pending a public hearing;
- (c) the amount of 75% of \$7,819,000 for the twelve months ending 30 November 1982 proposed by the Company as operating and maintenance expenses,

- 3 -

being \$5,864,250, is just and reasonable pending a public hearing;

- (d) a return on equity of 15.75% is just and reasonable pending a public hearing;
- (e) a debt/equity ratio of 75/25 is appropriate;
- (f) the monthly interest expense should reflect the actual cost of debt to the Company, except that for funds advanced to the Company by TransCanada PipeLines Limited and Nova, An Alberta Corporation, the monthly interest expense should be calculated using the lesser of the actual cost of the funds so advanced and the month end Royal Bank of Canada prime rate;
- (g) no provision should be made for developmental costs in the rate base or cost of service pending a public hearing; and
- (h) certain depreciation rates are not appropriate.

IT IS ORDERED THAT:

1. (a) Rate Schedule T-1, Firm Service, Paragraph 6.3 is disallowed and the following substituted in lieu thereof:

"6.3 If the expenses covered under subsection 7.3 herein of the Company's actual Cost of Service over the total Billing period

- 4 -

are greater than the budgets approved by the NEB in Schedule A attached hereto for the same expenses and for the same total Billing period, an amount equal to the excess will be deferred into an account until approval has been received from the NEB."

- (b) Rate Schedule T-1, Firm Service, Paragraph 7.4 is disallowed and the following substituted in lieu thereof:

"7.4 Depreciation Expense

An amount equal to one-twelfth of the sum of the products obtained by multiplying the aggregate actual original cost of all items included in each class of depreciable Gas Plant in Service (column 1), as at the beginning of a Billing Month, by the applicable Annual Straight-Line Rate (column 3). As depicted by the rate applicable to 'all other gas plant in service' shown in column 3, it is the intent during the first three years of service to reduce annual depreciation charges applicable to this class of plant. Developmental costs shall be excluded from the original cost of Gas Plant in

- 5 -

Service for the purpose of calculating depreciation expense."

- (c) Depreciation rates for franchises and consents, office furniture and equipment, tools and work equipment, transportation equipment, and heavy work equipment, as provided in Rate Schedule T-1, Firm Service, Depreciation Rate Table are disallowed and the following substituted in lieu thereof:

Franchises and Consents	2.75%
Office furniture and equipment	7 %
Tools and work equipment	7 %
Transportation equipment	20 %
Heavy work equipment	10 %

- (d) Rate Schedule T-1, Firm Service, Paragraph 7.5, Amortization Expense, is disallowed;
- (e) Rate Schedule T-1, Firm Service, Paragraph 7.7 Income Taxes, is disallowed;
- (f) Rate Schedule T-1, Firm Service, Paragraph 7.8.1 is disallowed and the following substituted in lieu thereof:

"The monthly interest expense incurred by the Company on the 75% component of of the Company's rate base financed

- 6 -

by debt. Such expense shall be calculated using the actual cost of debt to the Company, except that, for funds advanced to the Company by TransCanada PipeLines Limited and Nova, An Alberta Corporation, the lesser of the actual cost of the funds to those companies, and the month end Royal Bank of Canada prime rate shall be used.

- (g) Rate Schedule T-1, Firm Service, Paragraph 7.8.2 is disallowed and the following substituted in lieu thereof:

"The monthly return on common equity is equal to $1/12$ of 15.75% applied to the 25% common equity component of the Company's rate base. This component is obtained by subtracting from the rate base for the Billing month computed pursuant to subsection 7.8.3 herein, the component of the rate base financed by debt."

- (h) Rate Schedule T-1, Firm Service, Paragraph 7.8.3 (a) is disallowed and the following substituted in lieu thereof:

- 7 -

"(a) The sum of the balance of actual original investment in gas plant in service including, but not limited to, such balances as recorded in Account Nos. 401 through 498, gas plant leased to others (Account No. 101), preliminary survey and investigation charges (Account No. 172), public improvements related to gas operations (Account No. 176); organization expense (Account No. 178) and other deferred debits related to gas operations (Account 179), except those dealt with differently as approved by the Board, less the sum of the balances of: accumulated depreciation (Account No. 105), contributions in aid of construction (Account No. 211), accumulated deferred income taxes (Account No. 276) and other deferred credits related to gas operation (Account No. 279), less developmental costs."

AND IT IS FURTHER ORDERED THAT:

2. Schedule A hereto shall be annexed to and form Schedule A to the Company's tariff.

- 8 -

3. The Company shall forthwith file with the Board a tariff conforming to paragraphs 1 and 2 hereof.

4. Notwithstanding the filing of the said new tariff in conformity with paragraph 2 hereof, the same shall remain suspended and be of no effect until the date of commencement by the Company of service to Boisbriand, in the Province of Quebec, over the facilities authorized by Certificate No. GC-64, provided that the Company shall have filed all applicable Service Agreements for the transportation of gas to Boisbriand.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

SCHEDULE A

APPROVED BUDGET FOR TRANS QUEBEC &
MARITIMES PIPELINE INC. FOR THE TWELVE
MONTHS COMMENCING 1 DECEMBER 1981 AND
ENDING 30 NOVEMBER 1982.

1. The budget for operating and maintenance expenses is
\$5,864,250.

ORDER NO. AO-1-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF the filing by Trans Québec & Maritimes Pipeline Inc. of a certain tariff with the Board pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1562-T28-2.

B E F O R E the Board on Monday, the 13th day of September 1982.

UPON Trans Québec & Maritimes Pipeline Inc.

(hereinafter referred to as "the Company") having filed with the Board, pursuant to Part IV of the National Energy Board Act, a tariff, which tariff by its terms is to be effective as of the 1st day of December, 1981, or at such other date of commencement of service for the facilities authorized by Certificate No. GC-64;

AND UPON the Company, in conjunction with filing the said tariff, having sought an order or orders under Part IV of the National Energy Board Act by application dated the 18th day of November, 1981;

AND UPON it having appeared that the Board would be unable to conclude the public hearing of the said application before the date of commencement of service for the facilities to Boisbriand, in the Province of Québec, authorized by Certificate No. GC-64;

AND UPON the Board, having determined that it is desirable to ensure that the Company may commence to charge tolls pending the said public hearing;

AND UPON the Board having issued, on Thursday, the 10th day of December, 1981, Order No. TG-7-81;

AND UPON the Proclamation on 23 July 1982 of certain amendments to the National Energy Board Act which, inter alia, govern the authorization of interim tolls;

AND UPON the Company having filed with the Board an application dated the 7th day of September, 1982 for the "necessary action which will reflect that Order TG-7-81 was and is an interim order with the consequent entitlements thereunder from Section 52.2 of the present NEB Act";

AND UPON the Board being of the opinion that Order No. TG-7-81 is not an interim order;

AND UPON the Board having determined that Order No. TG-7-81 should be made an interim order effective the 1st day of October, 1982.

IT IS ORDERED THAT Order No. TG-7-81 be and the same is hereby amended by adding thereto immediately following paragraph 4 thereof the following paragraph:

.../3

"5. The said tariff, filed in conformity with paragraph 2 thereof, shall be an interim tariff and shall remain in effect only until such time as the Board issues its final order with respect to the application herein by the Company under Part IV of the National Energy Board Act."

AND IT IS FURTHER ORDERED THAT this amending order shall come into force on the 1st day of October, 1982.

NATIONAL ENERGY BOARD

A handwritten signature in dark ink, appearing to read "G. Yorke Slader". The signature is fluid and cursive, with the first letter of each word being capitalized and prominent.

G. Yorke Slader,
Secretary

ORDER NO. AO-2-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF a submission by Trans Québec & Maritimes Pipeline Inc. respecting its Operating and Maintenance Expense Budget, filed with the Board under File No. 1562-T28-2.

B E F O R E the Board on Monday, the 13th day of September 1982.

UPON the Board having by Order No. TG-7-81 prescribed the tolls Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "Company") may charge in respect of natural gas transmitted by it through its pipeline and sold by it in each month during the term of the said order;

AND UPON the Company having, by a submission dated the 31st day of August 1982, submitted its forecast of Operating and Maintenance Expenses for the period commencing on the 1st day of December 1982 and ending on the 31st day of March 1983;

AND UPON the Board considering it desirable, so as to ensure that the company may continue to charge the tolls authorized by Order No. TG-7-81 during the period commencing on the 1st day of December 1982, to approve an Operating and Maintenance Expense Budget for the period ending on the 31st day of March 1983;

IT IS ORDERED THAT:

1. Order No. TG-7-81 be and the same is hereby changed, altered and varied
 - (a) by adding thereto immediately following paragraph 2 thereof the following paragraph:

"2.1 Schedule B hereto shall be annexed to and form Schedule B to the company's tariff."
 - (b) by adding thereto the attached Schedule B.

AND IT IS FURTHER ORDERED THAT:

2. The company shall forthwith file with the Board revisions to its tariff conforming to paragraph 1 hereof.
3. This amending order shall come into force on the 1st day of October, 1982.

NATIONAL ENERGY BOARD



G. Yorke Slader
Secretary

SCHEDULE B

APPROVED BUDGET FOR TRANS QUEBEC &
MARITIMES PIPELINE INC. FOR THE FOUR
MONTHS COMMENCING 1 DECEMBER 1982 AND
ENDING 31 MARCH 1983.

1. The budget for operating and maintenance expenses
is \$4,000,000.



ORDER No. AO-3-TG-7-81

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder; and

IN THE MATTER OF a submission by Trans Québec & Maritimes Pipeline Inc. respecting its Operating and Maintenance Expense Budget, filed with the Board under File No.1562-T28-2.

B E F O R E the Board on Tuesday, the 8th day of February 1983.

UPON the Board having by Order No. TG-7-81 prescribed the tolls Trans Québec & Maritimes Pipeline Inc. (hereinafter referred to as "Company") may charge in respect of natural gas transmitted by it through its pipeline and sold by it in each month during the term of the said order;

AND UPON the Company having, by a submission dated the 14th day of January 1983, submitted its forecast of Operating and Maintenance Expenses for the period commencing on the 1st day of April 1983 and ending on the 30th day of June 1983;

AND UPON the Board considering it desirable, so as to ensure that the Company may continue to charge the tolls authorized by Order No. TG-7-81 during the period commencing on the 1st day of April 1983, to approve an Operating and Maintenance Expense Budget for the period ending on the 30th day of June 1983;

IT IS ORDERED THAT:

1. Order No. TG-7-81 be and the same is hereby changed, altered and varied

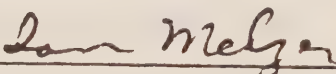
(a) by adding thereto immediately following paragraph 2.1 thereof, the following paragraph:
"2.2 Schedule C hereto shall be annexed to and form Schedule C to the company's tariff."

(b) by adding thereto the attached Schedule C.

AND IT IS FURTHER ORDERED THAT:

2. The company shall forthwith file with the Board revisions to its tariff conforming to paragraph 1 hereof.

NATIONAL ENERGY BOARD


for G. Yorke Slader
Secretary

SCHEDULE C

APPROVED BUDGET FOR TRANS QUEBEC &
MARITIMES PIPELINE INC. FOR THE THREE
MONTHS COMMENCING 1 APRIL 1983 AND
ENDING 30 JUNE 1983.

1. The budget for operating and maintenance expenses is
\$2,000,000.

TRANS QUEBEC & MARI ES PIPELINE INC.

Approved Average Rate Base for the Test Period
1 July 1983 to 31 December 1983

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	1 July	31 July	31 August	30 September	31 October	30 November	31 December	Average Rate Base
<u>Plant</u>								
Gas Plant in Service	\$311,263	\$311,263	\$446,613	\$449,117	\$449,670	\$450,036	\$450,748	\$409,816
Accumulated Dep'n Gas Plant	(4,239)	(5,082)	(5,810)	(6,842)	(7,871)	(8,892)	(10,017)	(6,965)
Other Deferred Debits	-	-	-	-	-	-	-	-
	<u>\$307,024</u>	<u>\$306,181</u>	<u>\$440,803</u>	<u>\$442,275</u>	<u>\$441,799</u>	<u>\$441,144</u>	<u>\$440,731</u>	<u>\$402,851</u>
<u>Working Capital</u>								
Cash	755	755	755	755	755	755	755	755
Plant Materials	278	283	288	294	305	310	315	296
Line Pack Gas	532	532	532	532	532	532	532	532
Prepayments	227	227	199	170	142	114	85	166
Downscaling	2,425	2,358	2,291	2,224	2,157	2,090	2,023	2,224
	<u>\$ 4,217</u>	<u>\$ 4,155</u>	<u>\$ 4,065</u>	<u>\$ 3,975</u>	<u>\$ 3,891</u>	<u>\$ 3,801</u>	<u>\$ 3,710</u>	<u>\$ 3,973</u>
<u>Other Rate Base Items</u>								
Deferred Income Taxes	-	-	-	-	-	-	-	-
Tax Benefit on Sponsors' Dvp. Costs	(15,553)	(15,517)	(15,481)	(15,445)	(15,409)	(15,373)	(15,337)	(15,445)
	<u>(15,553)</u>	<u>(15,517)</u>	<u>(15,481)</u>	<u>(15,445)</u>	<u>(15,409)</u>	<u>(15,373)</u>	<u>(15,337)</u>	<u>(15,445)</u>
Rate Base	<u>\$295,688</u>	<u>\$294,819</u>	<u>\$429,387</u>	<u>\$430,805</u>	<u>\$430,281</u>	<u>\$429,572</u>	<u>\$429,104</u>	<u>\$391,379</u>

TRANS QUEBEC & MARITIMES PIPELINE INC
Approved Gas Plant in Service for the Test Period
1 July 1983 to 31 December 1983
(000)

NEB Account Number	July	August	September	October	November	December
401 Franchises and Consents	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295	\$ 21,295
460 Land	1,287	1,623	1,631	1,639	1,645	1,651
461 Land Rights	16,794	25,410	25,634	26,060	26,641	27,241
463 Measuring and Regulating	3,092	4,589	4,698	4,791	4,799	4,811
464 Other Structures and Improvements	-	-	-	-	-	-
465 Mains	253,981	376,932	379,490	379,870	379,926	379,969
467 Measuring Equipment	3,925	6,055	5,970	5,927	5,952	5,991
482 Structures and Improvements	2,685	2,690	2,691	2,692	2,693	2,693
483 Office Furniture and Equipment	2,399	2,403	2,403	2,403	2,403	2,403
484 Transportation Equipment	1,874	1,562	1,250	938	626	637
485 Heavy Work Equipment	725	821	821	821	821	821
486 Tools and Work Equipment	752	779	780	780	781	782
488 Communication Structures	1	1	1	1	1	1
489 Other Equipment	683	683	683	683	683	683
496 Unclassified Plant	1	1	1	1	1	1
Project Costs	1,769	1,769	1,769	1,769	1,769	1,769
	\$311,263	\$446,613	\$449,117	\$449,670	\$450,036	\$450,748

TRANS QUEBEC & MARITIMES PIPELINE INC
Approved Accumulated Depreciation and Amortization for the Test Period
1 July 1983 to 31 December 1983

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NEB Account Number	Accumulated Depreciation	July	August	September	October	November	December
461	Land Rights	\$ 167	\$ 205	\$ 263	\$ 322	\$ 382	\$ 443
463	Measuring and Regulating	42	51	64	78	92	106
464	Other Structures and Improvements	3	3	3	3	3	3
465	Mains	2,908	3,490	4,354	5,224	6,095	6,966
467	Measuring Equipment	68	79	97	114	131	148
482	Structures and Improvements	397	419	441	463	485	507
483	Office Furniture and Equipment	251	265	279	293	307	321
484	Transportation Equipment	499	437	364	281	188	198
485	Heavy Work Equipment	88	94	101	108	115	122
486	Tools and Work Equipment	57	61	66	71	76	81
488	Communication Structures	6	6	6	6	6	6
489	Other Equipment	50	56	62	68	74	80
496	Unclassified Plant	7	7	7	7	7	7
		\$4,543	\$5,173	\$6,107	\$7,038	\$7,961	\$ 8,988
	Accumulated Amortization						
401	Franchises and Consents	\$ 490	\$ 539	\$ 588	\$ 637	\$ 686	\$ 735
	Project Costs	49	98	147	196	245	294
		\$ 539	\$ 637	\$ 735	\$ 833	\$ 931	\$ 1,029
		\$5,082	\$5,810	\$6,842	\$7,871	\$8,892	\$10,017

TRANS QUEBEC & MARITIMES PIPELINE INC
Approved Monthly Depreciation and Amortization Expense for the Test Period
1 July 1983 to 31 December 1983

NEB Account Number	Depreciation	July	August	September	October	November	December	Total
461	Land Rights	\$ 38	\$ 38	\$ 58	\$ 59	\$ 60	\$ 61	\$ 314
463	Measuring and Regulating	10	9	13	14	14	14	74
464	Other Structures and Improvements	-	-	-	-	-	-	-
465	Mains	600	582	864	870	871	871	4,658
467	Measuring Equipment	14	11	18	17	17	17	94
482	Structures and Improvements	22	22	22	22	22	22	132
483	Office Furniture and Equipment	14	14	14	14	14	14	84
484	Transportation Equipment	31	31	26	21	16	10	135
485	Heavy Work Equipment	6	6	7	7	7	7	40
486	Tools and Work Equipment	4	4	5	5	5	5	28
488	Communication Structures	-	-	-	-	-	-	-
489	Other Equipment	6	6	6	6	6	6	36
496	Unclassified Plant	-	-	-	-	-	-	-
		<u>\$745</u>	<u>\$723</u>	<u>\$1,033</u>	<u>\$1,035</u>	<u>\$1,032</u>	<u>\$1,027</u>	<u>\$5,595</u>
401	Amortization							
	Franchises and Consents	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	\$ 49	294
	Project Costs	49	49	49	49	49	49	294
	Downscaling Expenses	67	67	67	67	67	67	402
		<u>\$165</u>	<u>\$165</u>	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 165</u>	<u>\$ 990</u>
	Total Depreciation and Amortization	<u>\$910</u>	<u>\$888</u>	<u>\$1,198</u>	<u>\$1,200</u>	<u>\$1,197</u>	<u>\$1,192</u>	<u>\$6,585</u>

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TRANS QUEBEC & MARITIMES PIPELINE INC
Sponsors' Development Costs
Comparison of Hearing Evidence to Amount Authorized by NEB

	<u>Hearing Evidence</u>	<u>Amount Disallowed</u>	<u>Amount Authorized</u>	
			<u>Account 401</u>	<u>Account 465</u> <u>Total</u>
Book Cost	\$29,206,488	\$ (6,935,441)	\$15,131,211	\$7,139,836 \$22,271,047
AFUDC Prior to 7 January 1983	9,762,959	(3,812,556)	3,871,006	2,079,397 5,950,403
AFUDC Subsequent to 7 January 1983	5,085,458 ⁽¹⁾	(1,679,666)	2,293,206	1,112,586 3,405,792 ⁽²⁾
Total	<u>\$44,054,905</u>	<u>\$(12,427,663)</u>		<u>\$31,627,242</u>

- (1) AFUDC on sponsors' development costs and carrying costs from 7 January 1982 to 31 December 1982.
- (2) AFUDC on approved sponsors' development costs and approved carrying costs from 7 January 1982 to 30 September 1982.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

Order No. TG-2-83

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans
Quebec & Maritimes Pipeline Inc. for certain
orders respecting tolls and tariffs under
Sections 50, 51, 52 and 52.2 of the Act, filed
with the Board under file No. 1562-T28-2.

B E F O R E the Board on Tuesday the 17th day of May 1983.

WHEREAS an application dated 18 November 1981, a
supplemental application dated 9 August 1982 and a second
supplemental application dated 16 February 1983 have been made by
Trans Québec and Maritimes Pipeline Inc. (hereinafter called
"TQM") for approval by the Board of a cost of service tariff filed
in accordance with section 51 of the Act and for orders under
sections 50, 52 and 52.2 of the Act fixing the just and reasonable
tolls that TQM may charge for the transmission of natural gas
through its transmission system;

AND WHEREAS the Board heard the evidence and submissions
of TQM and all interested parties with respect to the Part IV
applications at a public hearing held pursuant to Board Order
No. AO-3-RH-4-82, which commenced on 30 November 1982;

AND WHEREAS the Board's decisions and reasons for
decisions on the Part IV applications are set out in its Reasons
for Decision dated June 1983;

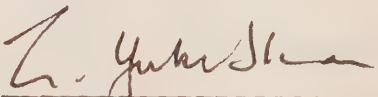
AND WHEREAS TransCanada PipeLines Limited is currently
the only shipper using TQM's facilities;

IT IS ORDERED THAT:

1. TQM shall charge, in respect of its Transportation Service provided to TransCanada PipeLines Limited, a monthly toll of \$6.297 million commencing 1 July 1983;
2. TQM shall forthwith file with the Board and serve upon all parties to the hearing of this application a Gas Transportation Tariff incorporating the toll set out in paragraph 1 and in conformity with the decisions outlined in the Board's June 1983 Reasons for Decision in TQM's toll application.
3. Notwithstanding the filing of the new tariffs and tolls, the same shall remain suspended and be of no effect until 1 July 1983.
4. Those provisions of TQM's tariffs and tolls or any portions thereof that are contrary to any provisions of the National Energy Board Act, or to any Order of the Board, including this Order, are hereby disallowed, such disallowance to be effective on 30 June 1983.

DATED at the City of Ottawa, in the Province of Ontario, this 17th day of May 1983.

National Energy Board



G. Yorke Slader,
Secretary

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

Order No. TG-3-83

IN THE MATTER OF the National Energy Board Act
and the Regulations made thereunder; and

IN THE MATTER OF an application by Trans
Quebec & Maritimes Pipeline Inc. for certain
orders respecting tolls and tariffs under
Sections 50, 51, 52 and 52.2 of the Act, filed
with the Board under file No. 1562-T28-2.

B E F O R E the Board on Tuesday the 17th day of May 1983.

WHEREAS an application dated 18 November 1981, a
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supplemental application dated 16 February 1983 have been made by
Trans Québec and Maritimes Pipeline Inc. (hereinafter called
"TQM") for approval by the Board of a cost of service tariff filed
in accordance with section 51 of the Act and for orders under
sections 50, 52 and 52.2 of the Act fixing the just and reasonable
tolls that TQM may charge for the transmission of natural gas
through its transmission system;

AND WHEREAS the application, as supplemented, requested
inter alia approval of TQM's "Base Case" or "in the alternative if
the Board deems it requisite that the Applicant's tolls be
levelled, for the Applicant's toll levelling proposal, 'the
Levelling Case'";

AND WHEREAS by Order No. TG-7-81, dated 10 December
1981, the Board suspended parts of the Gas Transportation Tariff
filed with the Board by TQM on 18 November 1981 and ordered
certain alterations to the said tariff;

AND WHEREAS by Order No. TG-7-81, the Board approved inter alia an Operating and Maintenance Expense Budget of \$5,864,250 for TQM for the period 1 December 1981 to 30 November 1982;

AND WHEREAS on 7 January 1982, TQM filed a revised Gas Transportation Tariff, in accordance with Order No. TG-7-81;

AND WHEREAS the revised Gas Transportation Tariff came into effect on 12 February 1982;

AND WHEREAS TQM, by an application dated 7 September 1982, requested that the Board take the "necessary action which will reflect that Order No. TG-7-81 was and is an interim order with the consequent entitlements thereunder from Section 52.2 of the present NEB Act";

AND WHEREAS by Order No. AO-1-TG-7-81, dated 13 September 1982, the Board made Order No. TG-7-81 an interim order effective 1 October 1982;

AND WHEREAS by Order No. AO-2-TG-7-81, dated 13 September 1982, the Board approved an Operating and Maintenance Expense Budget of \$4,000,000 for TQM for the period 1 December 1982 to 31 March 1983;

AND WHEREAS by Order No. AO-3-TG-7-81, dated 8 February 1982, the Board approved an Operating and Maintenance Expense Budget of \$2,000,000 for TQM for the period 1 April 1983 to 30 June 1983;

AND WHEREAS TQM also requested "an order for accounting and toll purposes approving the amount by which the Applicant's actual Operation and Maintenance Expenses for the period 12 February 1982 to 31 December 1982 exceed the amount of the budgets previously approved for that period, and authorizing the amortization of such excess over the period commencing with the month following the issuance of the Board's order in these proceedings and ending on 31 December 1983";

AND WHEREAS TQM also more specifically requested that the Board approve the amount of \$1,347,196, which is the amount by which TQM's operation and maintenance expenses exceeded those approved by Order No. TG-7-81 for the period ended 30 November 1982;

AND WHEREAS TQM also requested, "in the event that the Board does not approve TQM's Levelling Case, for an order directing that the Applicant recover in its tolls, in a manner satisfactory to the Board, the amount from and after 12 February 1982, by which the tolls determined by the Board to be just and reasonable in the Base Case exceed the tolls charged under the tariff TQM filed pursuant to Board Order No. TG-7-81 and amending orders, together with interest on the amount so recovered";

AND WHEREAS the Board heard the evidence and submissions of TQM and all interested parties with respect to the Part IV applications at a public hearing held pursuant to Board Order No. AO-3-RH-4-82, which commenced on 30 November 1982;

AND WHEREAS the evidence indicated that the approved Operating and Maintenance Expense Budget for the period ending 30 November 1982 was overrun by \$342,706 in the month of October 1982 and by \$1,004,490 in the month of November 1982 ("the deferrals");

AND WHEREAS the Board has decided, as is more fully set out in the Reasons for Decision dated June 1983, not to approve TQM's Levelling Case;

AND WHEREAS section 52.2 of the National Energy Board Act allows the Board, where it has made an interim toll order, to direct a company to recover in its tolls, in a manner satisfactory to the Board, the amount by which the tolls determined by the Board to be just and reasonable exceed the tolls charged by the company under the interim order, together with interest on the money so recovered;

AND WHEREAS the Board's decisions and reasons for decisions on the Part IV applications are set out in its Reasons for Decision dated June 1983 and in Order No. TG-2-83;

IT IS ORDERED THAT:

1. For the purpose of calculating TQM's billings to TransCanada PipeLines Limited, Order No. TG-7-81, as amended, shall cease to have effect 30 June 1983;
2. TQM shall include in its July 1983 billing to TransCanada PipeLines Limited the amount of \$1,347,196, being the overrun on its Operating and Maintenance expense budget for the

period from 12 February 1982 to 30 November 1982, together with carrying charges on the deferrals calculated at the allowed rates of return on rate base for each of the months beginning October 1982 and ending June 1983.

3. TQM shall include in its July 1983 billing to TransCanada PipeLines Limited an amount representing the sum of the differences between;

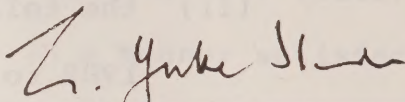
- (i) the interim tolls charged by TQM for each month from 1 October 1982 to 30 June 1983 and,
- (ii) the tolls calculated for each month from 1 October 1982 to 30 June 1983 had there been included in TQM's rate base on 1 October 1982 the development costs approved by the Board in its Reasons for Decision dated June 1983 and the development costs ordered transferred to NEB account no. 465 "Mains" by the Board in its Reasons for Decision dated June 1983, and had capital taxes been calculated for the period 1 October 1982 to 30 June 1983 in the manner approved by the Board in its Reasons for Decision dated June 1983, and had a rate of return on equity of 15.30 percent for the period been used;

together with the sum of the carrying charges calculated for each month's difference from the end of each month to 30 June 1983 at the allowed rates of return on rate base.

4. For the purposes of calculating the carrying charges in paragraphs 2 and 3 the monthly allowed rate of return on rate base shall be determined using a rate of return on equity of 15.30 percent, a debt/equity ratio of 75/25 and TQM's actual monthly cost of debt.

DATED at the City of Ottawa, in the Province of Ontario, this 17th day of May 1983.

National Energy Board


G. Yorke Slader,
Secretary

